

POLAND BETWEEN TWO WARS

*A Critical Study of Social and
Economic Changes*

by

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FOREWORD

I HAVE attempted in these pages to record the history of the economic development of Poland during the twenty years which divide the First World War from the Second.

This outline of economic history is an attempt not only to explain the essential trends of modern Poland from the economic viewpoint—a not unimportant matter—but also to show at what points certain developments were interrupted and may be resumed in post-war reconstruction. Political issues are depicted so far as is necessary for an understanding of economic development, since economic policy is but a part of the greater body of a nation's life.

The book has no propagandist objectives whatever. Its object is to record and explain facts as they are visualized by a Polish mind after twenty years of the First Polish Republic.¹ An historical work records two kinds of changes, firstly, those implicit in the events and processes described and, secondly, that which take place in the mind of the recorder, as he sees and values differently in every epoch.

Why is the present so suitable a time for recording twenty years of Polish economic history? Because one phase of development which may be regarded as a chapter in itself is now closed. Its institutions have passed away; the men who led it have already to a large extent fallen into oblivion. Events and processes may be recorded fairly frankly, and without restraint. The failures of institutions and of men can be admitted without doing harm to the Polish cause. On the contrary there is genuine need for criticism in order that we may learn something from the past, and thus avoid former faults. On the part of the Polish people, there is a genuine desire to analyse closely the past period, and give a documented answer to the questions: What was wrong in the past; what blunders can be avoided in the future, and on what basis can we build anew?

Furthermore, the short period dealt with is interesting in that it united three areas, previously separated and controlled by different régimes, into one single national unit under the most difficult and strenuous conditions, aggravated sometimes by indifference in great financial centres. If the general question were asked: What are the most difficult conditions under which an area hitherto somewhat backward from the economic standpoint could be united under a new régime?, the answer might be given: Under those faced by the First Polish Republic.

Finally, the period whose history is here recorded is a very interesting

¹ Poland before the Partitions was a kingdom, though usually known as the Polish Commonwealth.

one of transition in the structure and system of the national economy, characteristic not of Poland only or even of Central Europe as a whole, but of many other countries also. We see how an epic attempt to continue the economic policy on traditional lines, with the greatest sacrifices on the part of the whole population, was endured with great equanimity during the Great Depression and how afterwards the old structure, in its breakdown and dissolution, was slowly and continuously driven towards new forms of economic planning.

The process which may be observed in many other countries can be clearly seen in the experience of Polish economy, and is extremely instructive for those who retain any illusions as to a possible revival of a *laissez-faire* system in the international economy.

History has never been a good "*magistra vitæ*", for the historical process is unique and is not susceptible of repetition. But the life of a nation is a continuity. Not only reconstruction but also building anew in national economy means nothing but a continuation of early efforts. Even if we should attempt to divorce our plans and efforts from the historical past, its achievements and its blunders, and leave out of account all the play of collective forces as previously developed, we should certainly not succeed in the attempt.

History displays to us not devices and prescriptions, but the fundamental material of the dynamic forces which are implied in the soil and geographical position, past experience and living memory, and all the other elements of national development, such as race, culture, social psychology, and national wealth and its distribution. And these forces will again be called on to play their part in post-war Poland.

I cannot conclude this preface without a word of thanks to Dr. L. Barański, Professor T. Brzeski, Professor A. Prągier, Professor E. Szturm de Sztrem, and Mr. T. Janta-Polczyński, B.Sc. (Econ.), who kindly read my manuscript and made useful criticisms and suggestions. I must mention also the assistance of Professor S. Glaser and Professor S. Plużański. For shortcomings, however, the responsibility rests entirely with me. Finally, I thank Mr. A. S. B. Glover for the correction of my English.

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September 1943.

INTRODUCTION

1. THE IDEA OF POLISH HISTORY

EVERY nation may be said to be the embodiment of a characteristic idea which reflects its history: an idea which, consciously or unconsciously adopted through the generations, inspires the nation's policy and hinders or facilitates the task of national development.

Poland is the highway between West and East. While she includes elements from both, she regards herself as the outpost of the Western world in the East of Europe. It was her task as trustee to defend and to develop the precious values of Western culture on the borders of the East. As time passed, the significance of this idea changed, but the idea itself remained as one of the guiding principles of the Polish mind.

The ideas and institutions which came from the East never attracted the Polish people; they were foreign to the Polish mind in substance as well as in form. The great clash in ideas and institutions between East and West, which occurred during the twenty years between the World Wars, found Poland clinging more and more to the side of the West.

The Polish people were very eager to strengthen their ties with the Western World. But this Western world meant to them, not Germany, but rather the peoples living on either side of the Atlantic coast.

This principle is referred to here because by it so much of the economic policy of Poland can be explained. The economic traditionalism of the Western world, its dislike for bold experiments in social-economic planning, the continuation of the orthodox policy based on neo-classical economic thought, exercised a restrictive influence on Poland's economic policy. She wished to avoid a final departure from the traditional way of life as developed on both sides of the Atlantic, because she wished to retain Western standards of culture. This imposed a great strain on the national economy, because the conditions of Poland, a country in an early stage of industrialization, a debtor country with a small influx of foreign capital and far away from the main highways of world trade, an emigrant country whose would-be emigrants beat against closed doors, were completely different from the conditions of the Great Powers of the West.

Poland, as we shall see, was one of the last countries to abandon the gold standard, introduce exchange control, and loosen her ties with world economy.

This contradiction between the accepted patterns of the Western world and the necessities imposed by the actual position of Poland's national economy have played an important part in her modern economic history. It is in this connection, as we may admit, that some of her economic mistakes were made.

2. DIFFICULTIES OF POLAND'S GEOGRAPHICAL POSITION

POLISH soil, it has been said, is among the most unfavourable areas in Europe from the point of view of German "Geo-politik". Poland lies between Germany, with which she had a common frontier of about 1912 km., 607 km. of which are conterminous with East Prussia, and Russia, with which she shared a border of 1412 km. Sixty per cent of the total length of the Polish frontier faced Germany or Russia. Next came the frontier with Czechoslovakia, which accounted for 984 km.—17·8 per cent. of the total—but lay for the most part in high and mountainous country where communications were rather scanty.

The "free and secure access to the sea" promised in the thirteenth of Wilson's historic "points" of January 8, 1918, embraced only a strip of sea-coast, 140 km. in length, of which the undeveloped Bay of Puck accounted for 68 km. and certain rights in the Free City of Danzig, a self-governing community closely linked with Poland as regards communications and foreign trade. This strip of seaboard proved the most valuable asset in Poland's economic development, and was in a very real sense a lifeline of Polish economic independence, after Germany's economic pressure had been concentrated on Poland.

This politico-geographical situation imposed a great strain on Poland's political, social, and economic life. Confining ourselves to the last alone, it may be said that the cost of political security was very high in relation to the country's national income. Usually one-third of the State Budget was devoted to national defence, but the accounts of many other departments included some items connected therewith. This added to the heavy burden of taxation, which left only a small portion of the national income free for the purpose of economic development.

No less important was the fact that the frontier with Soviet Russia was almost a closed one. Exchange of goods and services between the pre-war Polish areas and the Russian Empire had been very active. Many industrial centres, such as Łódź, Zawiercie, Żyrardów, were dependent on the vast Eastern markets. But during the period with which we are concerned the links between Poland and Soviet Russia were cut or, at any rate, relaxed to the utmost. Russia's share of Polish foreign trade during the twenty years amounted on an average to

1 per cent. Poland tried to counteract this state of affairs, but was unable to succeed owing to the inherent features of Soviet planned economy, which was practically self-contained. Russia's share in world trade was only 1 per cent., and her principal requirements were tools and machinery.

On the German side the boundary was not closed but hostile, even from an economic point of view. Five of the twenty years were occupied by the German-Polish tariff war. In the first years of Polish independence, Germany absorbed nearly 50 per cent. of Polish exports, and supplied about 40 per cent. of the imports. The Polish-German Upper Silesia Convention of 1922 provided that Germany should import from Polish Upper Silesia free of duty 500,000 tons of coal per month until June 15, 1925. After that date Germany refused to take Polish coal, and asked for political concessions in respect to German minorities which had opted for Germany. Shortly afterwards she prohibited the import of Polish timber and agricultural products, thus starting a tariff war, which lasted until March 17, 1930, when a commercial treaty was signed at Warsaw. Negotiations, which had begun as far back as March 1925, had been broken off six times, mostly for political reasons.

The tariff war was the starting-point of a new development in Polish trade. It led to a conscious drive by the Polish Government towards the Baltic, the building of the port of Gdynia, the construction of railways from Silesia to Pomerania, the building of a national merchant navy, and the industrialization of Pomerania.

To overcome the handicap of the closed boundaries to the East and the hostile boundaries to the West, Poland sought new overseas markets, and developed them with the greatest effort and care. Special attempts were made to develop her commercial links with the British Empire and the United States. But here she encountered the obstacles raised by the Hawley-Smoot Tariff of 1930 in the U.S.A., and the Ottawa Agreements of 1932, which instituted Imperial preferences in the British Commonwealth.

3. ECONOMIC BACKWARDNESS: THE RESULT OF A HISTORICAL PROCESS

POLAND'S first attempt at industrialization began as early as the end of the eighteenth century under King Stanislas Poniatowski. The Polish magnates, following the king's example, founded many factories and workshops for various crafts. But during the long Wars of Partition, the insurrections, and the Napoleonic wars, the whole effort was frustrated.

The second attempt was made in the twenties of the nineteenth century, in Central Poland, by Prince Drucki-Lubecki, Minister of Finance in the Polish Kingdom (1815-1830). But this was greatly hampered by the great emigration and repression which followed the insurrection of 1831.

The third attempt at industrial development, in the eighteen-fifties, was hindered by the repression which followed the insurrection of 1863. Thereafter during the last quarter of the nineteenth century a further industrial development took place, which to a great extent led to the present localization of industry. Unfortunately many of its achievements were wasted or destroyed during the First World War, which lasted two or three years longer on Polish soil than elsewhere.

The partition Powers were not interested in Poland's economic development, particularly in her industrialization. They were not interested in investments or technical training and education. On the contrary they tried, as far as possible, to hamper the country's industrial development. This is especially true of South Poland, which was regarded as a natural market for Austrian industry.

In the Russian-occupied area the obscurantist, inefficient, and corrupt Tsarist administration was a hindrance to economic progress in spite of the vastness of the Eastern markets, which contributed in some degree to a genuine development of industry. In the Prussian section, apart from Silesia, economic development was chiefly concerned with agriculture, which reached a high level of intensive cultivation.

There was a complete lack of an armament industry in any part of Poland. Practically all the industries necessary for the equipment of a modern State were absent. Such facilities for foreign trade as elevators, silos, cold-storage plants, and warehouses, were completely lacking.

The level of electrification and of gas utilization was extremely low. The country's natural resources were not exploited. Poland's financial centres were located outside the country; mere local branches of three Central Banks, with few powers and resources, were in operation within it.

The network of roads, railways, and canals was exceedingly scanty. The Vistula and the other rivers were not regulated; water transport amounted only to 1 per cent. of all transport. The damage done by years of inundation to the non-regulated rivers was considerable. The three eastern canals (Królewski, Augustowski, Oginski) which had formerly played so great a part in Eastern commerce were completely neglected. The soil was left without any attempt to increase its productivity by modern methods of improvement.

The centres of economic control were Petrograd, Berlin, and Vienna. In the first two it was subject to a system of general oppression, and

in Vienna it was hampered by inefficiency and neglect. The theory of international division of labour was always put forward in answer to any national claim for industrial investments on Polish soil. Nearly every country has had its period of mercantilist policy during which the State granted premiums, subsidies, or guarantees for the construction of factories and the encouragement of industry, trained skilled workers or brought them from abroad, imposed "protective tariffs" or other fostering devices, retained cheap raw materials for home production, and so on. Until 1918 no such mercantilist policy had ever been followed in Poland, which had rather been subjected to an anti-mercantilist, anti-protective policy directed to keeping the country in a backward state. This backward state found its expression in the continuous stream of Polish emigrants and the over-population of Polish villages.

4. POLAND'S ECONOMIC DISMEMBERMENT

ON the day of their political unification the three parts of Poland did not constitute a single economic unit. They had different systems of civil, commercial, and fiscal legislation. They belonged to differing customs units, to differing money and credit systems. Nor did they constitute a unity in the sense that they had been developed after an organized pattern by constant adaptation and mutual testing. On the contrary some parts were over- and some under-developed. The time for Polish mercantilism, at least two centuries overdue, had arrived. Many factors in Polish economics can be better understood in the light of the term "Polish mercantilism", which was rendered necessary by the process of economic unification.

Nor did the parts form a unity in respect of transport and communication or of trading facilities.

To give only a few illustrations of the difficulties consequent upon the loss of economic unity as a result of one hundred and thirty to one hundred and fifty years of Partition, the figures relating to the foreign trade of the Polish area may be quoted. Before 1914 imports into the Polish area came, to the extent of 83·3 per cent., from Russia, Germany, and Austria; from other countries came only 8·5 per cent., while trade between the three occupied areas themselves amounted to only 8·2 per cent. of the total imports. Exports from the Polish areas to Russia, Germany, and Austria amounted to 85 per cent. of total exports, those to other countries to 7 per cent., while the trade between the occupied areas amounted to only 8 per cent. of the total exports of these areas.

To such a flow of trade the network of railways, highways, and canals was adapted. The main railways were built to strategic points on the frontier, and many of the railways run parallel to it. There

was a lack of communication between Pomerania and Warsaw. Lwów had no communication with Warsaw. Silesia was not linked either with the sea or with eastern Poland; Vilna had no link with the sea, and so on. The same applied to the roads. Communications within Poland were parts of three external systems; it had not constructed a single and self-contained system of its own. But the three sectors of Poland made up a natural unity. The basin of the Vistula, divided between and controlled by three Powers, tends naturally to form a single area, and rapidly recovered its economic unity when managed by a common administration. Poland very soon achieved a high degree of genuine self-support, and only a relatively small part of the needs of her population had to be met by foreign trade.

The process of unification was rendered more difficult since it began during the Polish-Russian war of 1919-20, and in a period of post-war chaos and post-war reconstruction. But in spite of all difficulties the process of unification proceeded rapidly as regards economic administration, though more slowly as regards communications.

5. POLAND: THE INTERNATIONAL HIGHWAY

ALTHOUGH the absence of natural obstacles on Poland's eastern or western frontiers make her a natural highway between East and West, her most glorious past is linked with the flourishing trade between North and South.

During the First Commonwealth she developed a large traffic and trade with the North by sea and with the South by the water route of the Vistula, Dniester, and Prut. The Danzig-Black-Sea route was most profitable for her trade, and became of the greatest importance for her country's economic development. Sea-trade with the Baltic and oriental trade with the Ottoman Empire were the backbone of Poland's ancient prosperity. She was a main highway between North and South.

In the Partition period Poland's links with East and West remained, but her communications with South and North were cut; with no roads, no railways running north and south, water traffic hampered and canals neglected, she became a more passive transit area between East and West.

During the twenty years with which this book deals, some attempts were made to revive the ancient route. Railway communications were improved and the route between Gdynia and Galac shortened. Polish air services operated all over central Eastern Europe, connecting the Baltic with countries as far off as Greece and Palestine. Strangely enough, Britishers travelling to the Near East or the Balkans often made use of the Polish air route, which served their purpose very well. But the main project of linking the network of the waters

of the Vistula with those of the Danube by means of canals in Silesia and Moravia, and of forming links with the Dniester and Prut in the south, was not carried out, mainly owing to lack of funds.

Trade with Czechoslovakia was neglected by both countries. Poland blundered in not paying more attention to the development of this trade; unfortunately the Agrarian Party, which was very influential in Czechoslovakia, was anxious to hinder Polish agricultural exports, and Polish industry replied by keeping down industrial imports from Czechoslovakia. Political controversy also played an important part in reducing mutual trade. Owing partly to the similarity of their products with those of Poland, and partly to bad communications, trade with Hungary and Rumania was likewise undeveloped.

The valley of the Vistula is in reality closely linked with the Danube valley, and the development of the two should be regarded as closely related and carried out as a single whole. Poland can prosper only as a Baltic State linking the South with the North, as she did in the sixteenth century, and her economic development must begin with the establishment of efficient communications between North and South.

6. ATTITUDE TOWARDS THE STATE

It is difficult to describe the mood and spirit of the Polish people on the day of liberation, when the long-awaited hour of freedom finally struck. It was a day of mingled joy, happiness, and pride. After so long a period of domination and exploitation, they wanted at last to set up their own home, however great the expense, and to furnish it with the greatest comfort and even luxury. They were intoxicated, it might be said, with the air of freedom and liberty.

The hour of freedom was also one of social upheaval, when a thorough social reform, involving the abolition of slums, poverty-stricken areas, and every form of social injustice seemed possible. All over Europe swept a wave of illusion, the belief that a new era of prosperity and social justice was at hand.

But in Poland, as in other European countries, this wave of illusion lasted but a very short time, and was replaced by recognition of the extremely hard and harsh reality. That reality in Poland was particularly sombre; towns and villages had been destroyed, railways and all kinds of communications completely disorganised, and stocks depleted.

The new State's struggle for survival and her wars of independence imposed many hardships and sacrifices, which the Polish people found very hard to endure, for from national freedom they had expected very different things. In the first years the "overdraft" in every domain of economic life came to light: in social legislation

and social services; in the functions and activities of the State; in well-meant programmes and plans for construction and reconstruction. On the other side there was a certain unwillingness to pay the full price of all this in taxes and imposts, for the view prevailed that the new State had come into being to give rather than to take. Many of the economic, social, and even political events of those first years can be easily explained in the light of this attitude, which expected from the new State as if from Heaven all kinds of gifts and benefits. This state of mind aggravated the process of inflation which dealt a great blow to the parliamentary régime. This mood prevailed more or less throughout the first years which coincided in time, and not only in time, with that régime.

This period of "overdraft" ended about 1924-5, and as time passed it was replaced by a spirit of duty and sacrifice, by a sense of emergency and danger. The people learned to pay taxes, to work more and harder, to save as much as they could. One of the best proofs of the change of spirit was the great success of the large internal long-term State loans issued at a low rate of interest, in which every stratum and class of society, not excluding even the poorest, participated, mortgaging their weekly incomes. Another proof was the self-discipline shown in regard to all kinds of control and regulation, which substantially improved in comparison with the behaviour in the earlier years.

7. THE NEW ADMINISTRATION

DURING the Partition period Polish initiative was greatly hampered while the administration was predominantly in foreign hands. Polish universities functioned only in the Austrian area. The managerial control of big business was Polish only in part. The State bureaucracy was, except in the Austrian area, wholly foreign. This resulted in the following great deficiencies when the hour of liberation came:

Lack of good administration, a result of inexperience. The taking over of public administration, and even of the management of big business, required an enormous effort, especially since under war and post-war economy the task of administration became much greater and more difficult. Economic control by the administration, owing to its lack of experience and to the fact that its expansion was only partial, was at first ineffective. But its progress in the later years was amazing. The first batch of officials who came into office in the early years of independence were soon dismissed. Later, selection became more careful, and the newly-opened Polish universities supplied new administrators and managers. Poland succeeded in forming a large class of highly-trained administrators, managers, and technicians in every field of public and private activity with growing experience and sense of responsibility.

There was in the beginning considerable distrust of the State administration among the people, as a result of their not having had a free State of their own for one hundred and thirty years. Generation after generation had grown up in the belief that the State was something basically inimical and hateful, and that one must be always on one's guard against its officers. Not to pay taxes, not to use the goods supplied by the fiscal monopolies, was thus regarded as a duty. It was difficult to overcome this attitude at once among the older generation, and this fact worked as somewhat of an obstacle to more speedy progress. This psychology changed with time, and in the later years completely disappeared.

Finally, lack of self-confidence on the part of the Polish people in their own power and abilities. The one hundred and thirty years of partition gave rise to a certain inferiority complex, a belief that the Poles were behind other peoples in their development, and must learn from and follow the example of others. Moreover, at the beginning the country's economic position was desperate, and it was evident that much foreign help would be needed. This contributed to the popular conviction that Poland could do nothing without external aid, and needed outside advice on certain basic issues owing to her lack of experience.

This lack of self-confidence and reliance on foreign help was in the early stages a very great impediment to development, for it soon turned into distrust of the national finances, money and credit, and led to many troubles and disturbances in the realms of finance and banking.

But this factor also after a certain time disappeared almost completely, and was replaced by a sense not only of confidence, but even of over-confidence. The maintenance of a stable currency in terms of gold at a time when all other currencies had depreciated was possible for the reason that the Polish people were in the later years over-confident in their own resources and abilities.

8. CLEAVAGE IN CONSTITUTIONAL AND SOCIAL IDEAS

THE political and social education of the Polish people differed greatly as between the three parts of Poland. The régime in the Russian-ruled area bred citizens of a type different from those ruled by Austria and Germany.

The citizens under Hapsburg rule were inclined to be democratic and bourgeois in outlook, accustomed to hold the rule of law in great respect, and educated in self-government, which was widely practised with the co-operation of large masses of the bourgeoisie. Those under the Hohenzollerns were nationalistic in outlook, liked order and discipline, were much under the influence of the landed proprietors and

the clergy, and were very successful in business and trade. Those ruled by the Romanovs were old hands in the underground movement, socially minded, and extremely distrustful of the administration in general.

The people of the first type might be described as conservative, those of the second as nationalist, and those of the third as radical. But a classification of this kind, though it holds good to some extent, is naturally a very vague generalization.

The bulk of the administrators came from the first type, since the Poles under Hapsburg rule had had the widest and easiest access to administrative posts and to the universities; and this caused certain unfortunate reactions from the start. The early years saw widespread regional animosities and jealousies, but as time passed these settled down. A great amount of intermingling between people from the three formerly separated areas took place, and the newcomers in a district were very soon absorbed by the local population and treated as "natives". Perhaps the greatest resistance to newcomers was found in Silesia, which was very proud of its autonomy, and guarded it with the greatest care. The régime of Pilsudski was very successful in exterminating the last remnants of regional jealousy and animosity. In the later years they disappeared completely.

One more point should be made in this connection. The cleavage in constitutional and social ideas between the three areas was one of the main factors in splitting up the political and social movements in Poland. The country had a great number of parties, because the political movement in every part was of a distinct growth, with its own body of leaders.

The differences in programme between some of the parties were insignificant, amounting merely to variations in the degree of emphasis placed on certain points, but in spite of this they remained distinct entities owing to their different traditions, leadership, and machinery. There were a number of Nationalist parties, Workers' parties, Peasants' parties, and Conservative parties, because each of the former areas had developed its own distinctive bodies.

This factor, often overlooked when the working of the Polish parliamentary régime is considered, was a very important one. As time passed, however, old differences were buried, or at least substantially diminished, the number of parties declined, and the political party system integrated. But there was not time enough for this movement to bear its full fruits, which may ripen in the future.

9. OLD AND NEW FORCES

Two different sets of ideas and institutions are to be distinguished in the working of the Polish economy: those taken over from the past, and those which developed after Poland became a free country once

more. The former were unadapted to the new conditions, worked under strain, and showed a marked tendency towards stagnation. The latter, suited to the new requirements, were in full harmony with national life, and showed a tendency towards development. Many examples of this might be adduced.

The old industries worked under most difficult conditions and strove hard for their very existence, tending to contract their output, while the new industries rapidly expanded. The old railways were in many respects unsuitable for the new traffic, while the newly-built lines of communication proved successful and rapidly developed. The old channels of trade were stagnant and depressed, while those that were newly opened flowed at a rapid pace.

The most striking example can be found in foreign capital. Its attitude towards the State, its willingness to co-operate and to play its full part in the national development, was highly dependent on this fact. The representatives of the foreign capital inherited from the Partition Powers regarded the new State with distrust and were most unwilling to co-operate with it, while those of the newly-invested capital maintained a positive attitude and contributed their share to the common pool.

The same is true in general with regard to old and new businesses. The old commercial houses, the old newspapers and journals, the old banks did not develop at the same rate as did the new.

Similar phenomena might be seen even in the liberal professions such as the law and teaching. The old lawyers very often failed, while those of the newer generation educated at the new universities succeeded in holding their own. This observation might be applied generally to the population at large. The older generation retained all the features acquired during its long period of subjection, while the younger, brought up in the new schools to breathe the air of liberty, was already in heart and mind in full harmony with the new State.

Unfortunately the accession of the younger generation to posts in administration and trade and industry brought some difficulties with it, and Piłsudski's régime, mostly recruited from the old band of fighters for independence, merely contributed to the aggravation of this problem. The older generation held on too tightly to all the key positions in the administration, and the mass of restrictions and prohibitions in trade and industry barred the way to newcomers.

10. CHANGES IN POPULATION

ONE of the most remarkable features of the Twenty Years is the complete change which occurred in the numbers and structure of the population. This change may be summarized as follows:

The enormous increase in population. The 27.4 millions recorded at the first census in 1921 had risen by 1939 to 35.1 millions. Nearly

eight million new citizens were added to the new State. Poland, in 1919 a country with a medium-sized population, grew to be a great and populous nation, rapidly approaching the size of France or Italy. It was estimated according to Colin Clark,¹ that by mid-1960 the population of Poland would reach 39·3 millions (with 18·5 millions of working population), while for France the estimates were 42·4 millions (with 18·1 millions of working population).

The very high *birth-rate* amounted in the period 1921-5 to 34·7 per 1,000 inhabitants. This rate, however, steadily declined during the Twenty Years as a result of popular education and the practice of birth control. In 1938 it had fallen to 24·6 per 1,000.

The *rate of mortality* reached a completely Western level, i.e. relatively low level. It has constantly diminished, and may be taken as the best index of economic and particularly of social improvement among the masses of the people. The death-rate per 1,000 inhabitants declined from 26·9 in 1919 to 18·5 in the period 1921-5, to 14·1 in 1936-8, and to 13·9 in 1938. This improvement, which almost halved the rate, was due in large measure to the introduction of health insurance and social services, which proved successful in spite of administrative failures and deficiencies.

The *natural increase*² of population. This amounted in the first years to about 450,000 per year, but declined later (1937-8) to 370,000. The yearly rate of increase amounted in 1921-31 to 1·7 per cent., and in 1931-8 to 1·2 per cent. of the population. This increase was a source of constant embarrassment to the labour market, as investment funds were greatly limited.

Poland was always an *emigration country*. During the twenty years 1919-38, 2,057,300 citizens left Poland to look for a living abroad, the bulk of them going to France, Germany, Canada, South America, U.S.A., or Palestine. But during the Great Depression the pace of emigration declined rapidly. The peak was reached in 1926-30, when 964,000 citizens left the country, while during the Great Depression (1931-5) the number fell to one-fourth of this figure. The substantial decline in emigration owing to the establishment of immigration quotas in the U.S.A. and other countries was one of the greatest blows delivered by the Great Powers to Polish economy, taking into account the simultaneous withdrawal of foreign capital.

The figures of emigration, however, must be related to those for the reimmigration of Polish citizens, which amounted to 870,300 in the period 1926-38. In addition to this must be considered the numbers of Polish citizens repatriated, mainly from Russia, in the period 1919-25, which amounted to 1,181,800.

¹ Colin Clark, *The Economics of 1960*.

² *Concise Statistical Year Book of Poland*. Current editions, including the last edition in London, 1941.

The main change in this connection after the war was the shifting of the emigration area from overseas to European countries, mainly France, which alone absorbed during the Twenty Years nearly 600,000 Polish workers and peasants. Another feature was that the settlement of emigrants in their new homes was not so secure, and many of them returned to the mother country during the Great Depression, only to add to the economic troubles at home. From France alone 117,100 persons returned at this period (1931-5) and in 1936-8 another 43,000.

The *composition of population* as regards the proportion of urban to rural components improved during the Twenty Years. The process of urbanization progressed slowly but steadily. Between 1921 and 1931 the urban population increased from 24 per cent. to 27 per cent. of the total. The percentage of further movement since 1931 is not statistically known, since no census has been taken; but it is believed to be not smaller, especially during the period of the industrialization of Central Poland.

The occupational changes of the population (in percentage distribution by industries) is seen from the following table:

WHOLE POPULATION

| Year | | Agriculture, Forestry and Fishing | Mining and Industry | Commerce and Insurance | Communi- cation and transport | Other occupations | Without occupation |
|------|----|---|---------------------------|------------------------------|-------------------------------------|----------------------|-----------------------|
| 1921 | .. | 63.9 | 15.7 | 5.7 | 3.1 | 8.5 | 3.1 |
| 1931 | .. | 60.9 | 17.7 | 5.5 | 3.3 | 9.3 | 3.3 |

GAINFULLY OCCUPIED POPULATION

| | | | | | | | |
|------|----|------|------|-----|-----|------|-----|
| 1921 | .. | 72.3 | 10.3 | 3.7 | 1.8 | 11.9 | |
| 1931 | .. | 64.9 | 15.1 | 4.8 | 2.1 | 10.4 | 2.7 |

The changes in *age distribution* have increased the population of working age and thus strengthened the pressure on the labour market. The age group from 15 to under 60 years increased from 57.3 to 58.6 per cent. of the population, while the age group under 20 declined from 47.7 to 43.1 per cent.

The *gainfully occupied* population amounted according to the last census (1931) to 15.0 millions, or 47.0 per cent. of the whole population. This is exactly the same percentage as shown by Great Britain in 1931, and close to that shown in some other European countries, such as Czechoslovakia (47.5 per cent.), Switzerland (47.8 per cent.), Sweden (47.1 per cent.), Austria (46.9 per cent.), and Yugoslavia (46.5 per cent.). However, the figures are not always strictly comparable in all respects.¹

The *distribution of the gainfully occupied population* by social status was characteristic for Poland in that the class of wage-earners was relatively weak, and that of employers and independent workers relatively strong.

¹ *Year Book of Labour Statistics*. International Labour Office. Geneva, 1942.

The gainfully occupied population was distributed as follows :

| <i>(In thousands)</i> | | | | |
|--|------------------|---------------------|------------------------------|--------------|
| <i>Employers and independent workers</i> | <i>Employees</i> | <i>Wage-earners</i> | <i>Unpaid family workers</i> | <i>Total</i> |
| 4,532 | 664 | 4,209 | 5,179 | 15,006 |

Of 4.5 millions of employers and independent workers, 3.3 millions, however, were in agriculture, with 650,000 in industry and 425,000 in commerce. Of the wage-earners about 1.5 millions were in agriculture, and the same number in industry, 415,000 in domestic service, and 222,000 in transport, with the rest in other industries. Of 5.1 millions of unpaid (family) workers 4.9 millions were found in agriculture and 122,000 in commerce.

11. THE ECONOMIC ANARCHY IN EAST-CENTRAL EUROPE

IT WOULD be wrong and misleading to sketch the economic history of Poland without paying some regard to other East-Central European countries. Polish history must be read against a Central European background, which should be kept in mind when comparisons and analogies are made. This is especially important for British readers, who are naturally inclined to compare the Polish record with the British.

But while keeping this in mind, it should further be remembered that of the countries in this area Poland was most heavily punished and subjected to the greatest strain by the impact of war. Czechoslovakia escaped the actual destruction of war altogether. The same is largely true of Hungary, which suffered only as a result of her civil war, and was in a much more favourable position in regard to the influx of foreign capital; Bulgaria, too, suffered very little. Of the other States, Yugoslavia is the only one whose war destruction can be compared with that in Poland; her position in regard to reparations, however, was more favourable.

Let us now review briefly the position of the East-Central European area, with which Poland shared many features in common, and with whose reconstruction her future also may be closely linked.

The new States located in the triangle between Germany, Russia, and Italy had, like Poland, been for a long time dominated and exploited by foreign centres—Petrograd, Berlin, Vienna, or Constantinople. All were backward in economic development, partly through the impact of foreign exploitation and partly through sheer neglect. Their communications were scanty, their industries undeveloped, their villages overpopulated. The starvation and misery of their peasants and artisans were proverbial. Versailles freed them from foreign domination, but left them to face all their miseries, their economic backwardness, and the utter disruption of their national economy alone.

What was done at Versailles in this regard may best be compared, brutal as the comparison may be considered, with freeing a slave with nothing but the rags on his back and no opportunity to make full and proper use of the rights formally bestowed on him. The East-Central European countries had at once to solve the problem of post-war reconstruction by their own unaided efforts, and to create their new administrations and construct their national economies within new boundaries with all the readjustments and hardships which that difficult process involved.

All this, combined with the utter economic exhaustion in which these States were left after the war, led to social conflagrations and political upheavals. Apart from Czechoslovakia, which owed her stability to her economic integrity, her industrial development, and the sound policy of M. Rašin, Minister of Finance in her first years, no State in that area was able to maintain a democratic régime. Such institutions collapsed in one country after another under the blows of misery and starvation.

Social and national conflicts in that racially mixed area, apart from the fact that they were excited intentionally by German agents, were too powerful to be mastered by the operation of a parliamentary régime. All the national economies were badly adjusted to the new conditions, and were unbalanced in the fields of production, trade, and credit. The national governments sought to counteract this maladjustment by imposing restrictions and prohibitions and creating high tariff barriers, but such steps only made the position worse. When at last they succeeded in getting their heads above water, they were overtaken in 1929 by the storm of the Great Depression with its devastating effects on their agriculture, money, and credit. Their large surpluses of agricultural products, until then unsaleable, depreciated to a great extent, and their whole credit and trade system failed.

They tried to help themselves. Quite a number of agrarian conferences were held in Bucharest and Sinaia; one, on the initiative of the Polish Government, was summoned at Warsaw (Warsaw Agrarian Conference, 1930), in which there participated not only the Little Entente and Poland, but also Hungary, Bulgaria, Latvia, and Finland. But no workable policy could be adopted owing to lack of co-operation by the Great Powers on the one side and to the Hungarian handicap on the other, for Hungary refused to co-operate with the Little Entente unless it agreed to the frontier modifications claimed by the Magyar State.

Among the Great Powers none had any real concern for the integration of this area, though some had for its disintegration. Willy-nilly, they contributed to the ultimate collapse of its structure. The two greatest handicaps were the closed economy of the Soviet Union on the one side and Germany's re-agrarianization on the other.

Russia developed an entirely closed economy. Her frontiers became dead frontiers. Before the war Russia had absorbed large quantities of goods whose export was of vital importance to certain more industrialized centres.

Germany embarked from the beginning upon a policy of re-agrarianization, refusing to take large quantities of agricultural products as she had done before the war. Thus huge surpluses of agricultural products in the area concerned were unsaleable. Germany also deliberately tried to disrupt the economy of the East-Central European Area, with a view to the *Anschluss*, which such an economic disorganization would facilitate. An attempt at effecting the *Anschluss* was made by the so-called Curtius-Schober Agreement of March 21, 1931, providing for the establishment of a Customs Union, though this did not come into operation owing to the veto of the Western Powers, Italy, and the Little Entente, which defeated the plan as contravening the terms of the Peace Treaties and the 1922 Protocol.

Thereafter Germany completely changed her policy towards this area, seeking to make the countries concerned subservient to her by economic domination and by deliberately using foreign trade as a political instrument. Germany thus began her New Economic Policy.

Goering, Schacht, Clodius, Funk, and other Nazi leaders began travelling from one to another of the East-Central European capitals, attempting by promises of good prices for exports and cheap deliveries to detach the countries from the Western democracies. The game was very easy to play, especially after the Great Depression, when the plight of these states was desperate and no help was forthcoming from Western Powers.

As a result a substantial increase in the German share of the foreign trade of all the countries in question came about, as is shown in the following table.

Germany's share in the foreign trade of these countries, expressed as a percentage of its total value, was (figures for 1939 include Austria):

| | | 1929 | 1936 | 1939 |
|------------|----|------|------|------|
| Bulgaria | | | | |
| Imports .. | .. | 22 | 61 | 66 |
| Exports .. | .. | 30 | 48 | 68 |
| Yugoslavia | | | | |
| Imports .. | .. | 16 | 27 | 48 |
| Exports .. | .. | 9 | 24 | 32 |
| Rumania | | | | |
| Imports .. | .. | 24 | 39 | 39 |
| Exports .. | .. | 28 | 21 | 32 |
| Greece | | | | |
| Imports .. | .. | 9 | 23 | 30 |
| Exports .. | .. | 23 | 36 | 28 |
| Hungary | | | | |
| Imports .. | .. | 20 | 26 | 49 |
| Exports .. | .. | 12 | 23 | 50 |

It may be frankly admitted that before the present war Germany came very near to realizing her dream of establishing her *Lebensraum* in "Mitteleuropa" by means of economic predominance and monopolistic exploitation.

France was interested in East-Central Europe only from the point of view of her vain search for security, and was neither able nor ready to offer much in the economic field. Her foreign trade and banking were dominated by selfish trusts and concerns which were not interested in trading with poor and disrupted agricultural areas. Only later, when the Great Depression was at its height, did France realize the desperate plight of these countries and the untenability of their position, already threatened by the *Anschluss* and by Germany's imperialistic trading methods. The plan of M. Tardieu, introduced as a counter-measure against the *Anschluss*, provided for the creation of a Danubian Tariff Union consisting of the five Succession States, Austria, Hungary, Yugoslavia, Rumania, and Czechoslovakia. But the scheme submitted in April 1932 to the London Conference failed to come into operation because of the opposition of Germany, Italy, Austria, and Hungary; moreover, it was not supported by the British Government, which refused to give up her rights under the most-favoured-nation clause in the Danubian area.

Italy played the part of a benevolent, protecting Power in regard to Austria and Hungary. They were accorded bilateral tariff preferences (afterwards extended to relations between Austria and Hungary) by the Rome protocols in the spring of 1934. But Italy was too weak, and her trade too small, to be able to redress the balance.

Great Britain showed a lack of interest and understanding of the needs and importance of East-Central Europe. Moreover, she was too closely linked with her great agricultural Dominions to be able to absorb large agricultural surpluses. When the Great Depression came, she failed in giving help to hard pressed countries in this region, embarking in 1932 at Ottawa on the policy of imperial preferences. This drove her still farther away from this area, which was left completely to the one-sided rule of Germany.

The effects of large unsaleable surpluses of agricultural produce were aggravated by a complete lack of investment funds which might make possible the transfer of population to trade and industry. Before the first World War the whole area was provided with large investment funds from two, or rather three, financial centres, one in Berlin and another in Vienna, with a supplementary one in Paris. After the war Paris, alarmed by the Russian default, largely withdrew from foreign lending, especially to the area bordering on Soviet Russia. Vienna was impoverished by a long process of war and post-war inflation, and its position weakened by the new frontiers. Germany herself became one of the chief debtor countries, besides being burdened

with reparations and concentrating on internal reconstruction and later on rearmament.

While the old financial centres withdrew from the Central European area, the new centres showed a lack of any interest and understanding of its vital importance. The result was shown in future developments.

The lessons of past achievements and failures in this area, it may be assumed, are now too clearly seen to be ignored. Everybody agrees that a New Deal for the East-Central European countries is one of the keys to post-war settlement and reconstruction in Europe. This area is one of the weakest points in the European structure, and the law of minimum effort teaches us that in every structure the greatest danger arises from the weakest point, and that the greatest care must be given to strengthening it. The Vistula-Danube area is the danger-spot of Europe, and unless this danger is disposed of, no lasting structure and no abiding peace can be established for Europe as a whole.

The creation of "co-operative solidarity" in this area, free from foreign exploitation and domination, and its wholesale reconstruction on the basis of the industrial development of its resources taken as a whole, would be one of the most outstanding contributions to Europe's peace and prosperity.

The principle of self-interest in its narrow sense has failed not only in internal affairs, but in international relations as well.

The Great Powers have up to now always obstructed any positive scheme tending to political and economic integration of East-Central Europe. But the results achieved were so disastrous to themselves that a reversal of this policy might now be expected in their own interests.

PART II

INTERPLAY BETWEEN ECONOMICS AND POLITICS

1. PERIODS OF A SHORT HISTORY

THE twenty years of Poland's economic history recorded in these pages were busy and eventful years. Each period of a few years had its own peculiar characteristics, dependent on the tasks to be performed and the problems to be solved, on the achievements and the failures. Each was a distinctive period, and each, in more peaceful times, would have been regarded as a milestone in the economic history of the country. Each brought about structural changes in the national economy.

First comes the period of war economy, which lasted during the War of Independence, and the first rapid process of unification. This was followed by the period of physical reconstruction of cities and villages, factories and farms, accompanied by wild inflation. Next came the first and unsuccessful attempt at financial reconstruction in 1924-5, and the second and successful stabilization of 1927. Thereafter followed the great drive towards the sea, accompanied by serious attempts at industrialization and technical modernization. On this supervened the Great Depression, a period of hard defensive battle fought in the darkness. It created new problems of adaptation and readjustment, followed by retrogression and a drastic setback to plans of every kind. Finally we have the last period, during which the first attempt was made towards a planned economy, the main feature of which was the industrialization of Central Poland, combined with the transfer of heavy industry from the frontier areas to others farther inland. The shadow of war already lay over the national economy.

We will consider briefly these periods one by one, interrupting at times the description of Poland's economic development to consider her political story, so far as that may help us to understand the former.

2. WAR ECONOMY

THE time which elapsed between November 11, 1918, which may be considered as the Day of Independence, and March 18, 1921, when the Riga Peace Treaty with Soviet Russia was signed, may be regarded as the period of war economy. Poland was fighting for her frontiers, especially in the East. This fight for the Eastern frontiers developed in 1920, amid the new State's struggle for its very existence. In April 1919 Polish troops occupied Wilno (Vilna); in May they won control

over Eastern Galicia; in August came a Polish rising in Upper Silesia; the battle of Warsaw, known as the Miracle on the Vistula, was fought in August 1920, and in October of that year Wilno was reoccupied.

The whole of this period was governed by the necessities of war economy, especially that of feeding the starving population, and of the hasty process of economic and administrative unification. This process was hampered by lack of food and the necessities of life. Each district and region desired to retain its own necessities, and concluded hasty arrangements with neighbouring countries for their supply. The customs frontier which separated the former Prussian part from the rest of Poland, though formally abolished in 1919, was not really removed until the autumn of 1921.

Supplies were stored, controlled, and distributed by the State Authorities. A Ministry of Food was set up. The sequestration and price control of supplies affected not only food, but also other necessities, such as soap, soda, coal, peat, petrol, cotton, and woollen articles, boots and shoes, etc.

The main task was the feeding of the country, and for this purpose an embargo on all exports of necessities was introduced. By a decree of February 7, 1919, all export, import, and transit trade was prohibited except under licence. By a decree of August 6, 1919, the Import and Export State Committee was created. A Board for buying supplies of the necessities of life and a Central Agency for the supply of wheat came into existence.

The situation was in many respects desperate. In Łódź a quarter of a million workers were out of employment. The Government had no credit abroad, and but little within the country itself. The economy of "war socialism" had contributed to lack of confidence.

That the Polish people were not at that time completely starved to death is due in great measure to the admirable work done by the Hoover organization. In January 1919 Americans arrived in Warsaw eager to help, and the first vessels bearing 14,000 tons of foodstuffs reached Danzig in February. German opposition to the use of the port of Danzig, then under their exclusive control, was so strong that only the forcible intervention of the Allies made it possible for American supplies to be landed there.

The effect of these food supplies, which went on for many months, was not only economic, but also political and social, as the tide of social revolution in Europe still stood very high.

The fiscal revenues during that time were mostly of an exceptional character. They chiefly embraced taxes on capital, and war and excess profits taxes, both introduced in 1919, and also what may be considered as "indirect taxation" on purchasing power effected by the issue of paper currency.

The war economy of this period, with its tendency towards State control of industry, trade, and banking, imposed a permanent pattern

on the administration. The basic State institutions and the central administration called into existence at the time of the war economy were from the beginning endowed with large-scale rights of control. And this coincidence in time between the war economy and the unification and creation of the new State was the foundation-stone of what was afterwards called Polish *Étatism*.

With the end of the Polish-Russian War, the war controls disappeared in many fields. Control over internal trade in respect of farm products was relaxed as early as March 1920, again in August 1920, and removed entirely in July 1921. The control over sugar and the coal trade was removed in October 1921. The embargo upon exports was cancelled in July 1921, and licences for imports, apart from those on the list of prohibited articles, were abolished in June 1921. But many controls survived during the period of super-inflation of 1922-3, and these were the nucleus of a further drive in that direction when the Great Depression appeared with its heavy pressure on the national economy.

3. THE FIRST HASTY UNIFICATION

THE period of war economy, as already mentioned, coincided with that of the first hasty process of unification. The first Polish Tariff was adopted on November 4, 1919. It was provisional in character, and was constructed upon the former Russian model, with some modifications.

The Polish Republic was not completely free in setting up its first Tariff, since the Versailles Treaty had provided for some essential restrictions of customs duties in respect of exports from Allied countries and other provisions.

In spite of the Tariff of 1919, customs unity in Poland was not established until November 1920, or rather the autumn of 1921, since up to that time the former Prussian area was controlled by the temporary Government for this area set up in Poznań.

A more elaborate Polish Tariff (the second) was decreed in June 1924 on the basis of a new currency (the *złoty*), but this also was of a somewhat provisional character, and after many substantial revisions and revaluations, especially in 1925, 1927, and 1930, the Third Tariff was substituted for it. This Tariff, which had been worked out with great care by a large committee of experts over some years, was already adapted to the special conditions of the country. This Third Tariff of October 11, 1933, was a maximum-minimum Tariff.

Monetary unification went on at a high speed. The exchange value of the Austrian crown, the rouble, and the Polish mark in their internal relations was established by Grabski during his first tenure of the Ministry of Finance. In the former Prussian area Bilinski had already replaced German marks by Polish marks, and the old notes were

withdrawn shortly afterwards. In the former Austrian area the crown was withdrawn by May 1920.

By May 1920 Poland may be said to have already achieved currency unity, and the Polish mark had become the exclusive legal tender. The new unit, the złoty, was not introduced until 1924, when the new Central Bank, the Bank Polski, was founded as a joint-stock company, taking the place of the former State Central Bank (Polska Krajowa Kasa Pożyczkowa).

The unification of systems of taxation was an extremely difficult task. There were really four of these, since in the former Russian area there had been two systems, one applied to Central Poland, the other to the Eastern Provinces. For instance, the method of assessing the Land Tax and its distribution differed in their principal features in these four parts of Poland. A cadastral survey, or a Land Utilization Map, recording the area, quality, and productiveness of each parcel of land, had been made only in the former Austrian and German areas.

The burden of direct taxation in general fell differently in the three parts of Poland. Each area had also its own system of indirect taxation and fiscal monopolies.

The process of fiscal unification began in 1919, and its main lines were laid down in 1925. First came a unified fiscal administration worked out on the basis of the law of July 15, 1919. Then came the common taxes, chiefly of an extraordinary character, imposed on capital and war profits. Some degree of unification in land taxation was achieved in 1921 and 1923. The system of business licences and turnover taxes was introduced in 1923. Indirect taxes and fiscal monopolies were unified or first introduced during the period 1921-5.

In the case of fiscal monopolies a single principle was generally adopted, namely, the extension to the whole country of those monopolies which had formerly been in operation in only one part of Poland. In this way Poland finally had five great State monopolies: tobacco (manufacture and sale), spirits (sale), salt, lotteries, and matches, as well as the monopoly for saccharine, which was of minor importance.

But the task of fiscal unification was not altogether complete even by the close of our period. To the end there still remained some complex features of fiscal legislation, based on old institutions or civil law, which were not unified; for instance, the methods of assessing the land tax, the tax on donations and inheritance, and certain fiscal fees.

The process of unifying the legal system—to confine ourselves to the great law codification in regard to national economy—was much slower. A new law regarding Bills of Exchange, based on the Geneva Convention of 1930, was brought in. A Code of Civil Procedure appeared in 1933, and a Commercial Code in 1934, together with a Code of Obligations. A far-reaching system of social legislation was

very soon substituted for the varying laws of the Prussian, Russian, and Austrian Partition Powers, and substantially developed on new lines. Great industrial codes, especially for mining, the petroleum industry, patent and industrial rights, and trading establishments, were drawn up.

4. THE DESTRUCTION OF WAR

THE greatest problem which confronted Poland after the war was the physical reconstruction of her damaged cities, farms, communications, and industries.

Three of the most powerful war machines of the world—the German, Russian, and Austrian—had passed over Polish soil several times, to and fro, in advance and retreat. The condition in which the occupying forces left the country was one of devastation, disruption, and impoverishment. What was not destroyed by military operations was pillaged, confiscated, or ruined by enforced contributions, fines, levies, and requisitions by the occupying armies.

The occupying Powers had taken cash and securities, driven off cattle, removed farm implements, and stripped factories of their machinery. Half the bridges, station buildings, and railway workshops had been destroyed. 1,800,000 buildings in cities, towns, and villages were lost by fire, their value being estimated at 1,500 million gold francs. The losses in livestock amounted to 2 million head of cattle, a million horses, and 1,500,000 sheep and goats. Nearly 11 million acres of agricultural land were put out of use by military operations, devastation, or lack of implements. Six million acres of forest were totally destroyed and 7,661 million cubic feet of timber were removed by alien armies from the country.¹

The industries of what had been Russian Poland suffered worst. Many of the factories, especially the textile factories of Łódź and Białystok, were denuded of machinery and equipment; stocks of raw materials and semi-finished goods were sent away into Germany. The metallurgical industry was completely immobilized. 41,259 electric motors and engines, 3,844 machine tools, and 98,000 tons of factory equipment were removed from Poland. An estimate of the loss to Polish industry during the war gives a total value of 12,000 million gold francs.

The railway rolling-stock of former Russian Poland was removed by the Russian armies. The Austro-German armies destroyed 940 railway stations and 7,500 bridges. No less important was the financial ruin of large masses of the population, the lack of clothing and shoes, and the exhaustion of all kinds of private household stocks, while the disorganization of the whole financial apparatus hampered any effort at reconstruction.

¹ R. Górecki. *Poland and her economic development*, London, 1935.

Five kinds of currency were in circulation—Austrian crowns, Tsarist roubles, German marks, Ost-roubles, and Ost-marks, besides the new Polish marks.

Bank savings, estimated before the war at 3,000 million gold francs, were to a large extent lost through currency depreciation. Assets of all kinds in the Government bonds of the Partition Powers were practically valueless.

But the war did not end for Poland in November 1918. It went on for two years longer. The war with Russia of 1919–20 further added to its exhaustion and devastation. This devastation affected mostly the agriculture of the eastern parts of Poland. It has been estimated that 4.5 million acres of land were laid waste; the loss of horses amounted to 60 per cent., of live-stock to 75 per cent. on the larger estates, and to 90 per cent. and 60 per cent. respectively on peasant farms.

No reparations were granted to Poland to make good the heavy damage inflicted. The theory adopted was that Poland, like Czechoslovakia, as former parts of enemy countries, had no legal right to reparations, but only to restitution in kind for machinery and engines requisitioned or locomotives and waggons removed.

Even these restricted obligations were not honoured by Germany. To quote an article from *The Times* of April 28, 1921:

“While German reparations are the topic of the day it may be useful to point out that Germany has not yet made the slightest amends for the damage she wrought in Poland or the machinery and stock looted from Polish factories; not so much as one motor has been returned, nor any compensation made for the valuable pedigree stock carried off from Polish stud-farms. Poland is having to repair her ruins without any assistance but her own.”

The theory accepted at Versailles was that Poland, as a former part of enemy territory, not only had no right to claim reparations, but also must share the debts of the former Empires, and to a certain extent the new burdens imposed by the Allies.

The following liabilities and indemnities were imposed on Poland:

2.5 milliards of gold marks had to be paid as indemnity for German State properties formerly in German occupation and as a share of the debts of Germany and Prussia; 1.5 milliards of gold crowns were imposed as indemnity for Austrian State properties in Galicia and Teschen-Silesia, besides a Liberation Tax amounting to 288 million gold francs. This was afterwards cancelled in exchange for the renunciation of Polish reparations by the Polish-German Agreement of Warsaw on October 31, 1929, and at the second Hague Conference on February 20, 1930, which finally settled the so-called Eastern Reparations questions.

The Polish debt arising from the liquidation of the liabilities of the

former Austro-Hungarian Empire was finally fixed at a sum which amounted to 324·8 million zloty (equivalent to 66·6 million Austrian florins or 20·9 million Austrian gold kronen); besides this, a sum of 17 million Swiss francs owing to the Czechoslovak Government in respect of mutual accounts arising out of the Treaty of St. Germain was imposed on Poland.

Apart from this, a heavy burden of political debt was laid on her active participation in the fighting services against Germany during the war. Her war debt to France, mostly for the cost of the Haller Army, was finally fixed (January 24, 1930) at 1,293 million French francs; for deliveries of arms, chiefly in 1919-22, in the war against Soviet Russia, the debt was fixed at 603 million francs; that for the cost of delimitation during the holding of plebiscites at 176 million francs. Her debts to Great Britain and Italy on the same grounds were relatively small.

Furthermore, heavy debts had arisen in connection with post-war relief. The war debt arising mainly from relief supplies fixed in 1924 in Washington was consolidated at 219 million dollars, and the interest was fixed at 3 per cent. until 1932 and at $3\frac{1}{2}$ per cent. thereafter. The consolidated sum included a charge of $4\frac{1}{2}$ per cent. from the time of delivery until the date of consolidation. The relief indebtedness towards France, the United Kingdom (1924, £4,778,700), Holland, Norway, Switzerland, Sweden, and Denmark amounted to much smaller sums.

We thus see that Poland had to face the problem of reconstruction, not only without reparations and indemnities, but, on the contrary, burdened with war debts, apart from the war debts and burdens imposed by the Partition Powers while in virtual control of her territories during the World War.

The physical reconstruction proceeded fairly quickly. It began on a large scale in 1921, and was practically complete by 1924-5. But the hasty process of physical reconstruction imposed a great strain on public finance and hindered the task of financial recovery.

5. THE STRUGGLE AGAINST INFLATION

THE long and exhausting process of inflation sprang from the constant excess of monetary income in relation to the available supply of consumer's goods. It might be considered as an overdraft on the national income.

The wars of liberation (1918-21) imposed a strain on the supply of all kinds of goods while extending the demand. Another source of "overdraft" was the war destruction in agriculture and industry; the necessities of reconstruction were a constant source of financial strain. Moreover, the taxation system was defective, and the old

taxes of the Partition Powers were partly disorganized during the World War.

Poland also inherited the psychology of inflation, since her people were infected by the long-term process of four and a half years of a constant race between prices and wages. Thus the process of inflation was already in full swing when Poland started to live her own life. The effect of the mood of the people, who expected all kinds of immediate advantages from the new State, has already been discussed.

The lack of effective control over prices and wages was another factor working towards inflation. This was in part due to the working of the parliamentary system, as the Peasant parties tried to avoid control of agricultural prices and the Left-wing parties control of wages. But the lack of effective control was also the natural outcome of a young and undeveloped State administration, not yet firmly established and not experienced in its daily tasks.

We will now outline the main stages in the long struggle against inflation carried out by successive Cabinets.

During the wars of Independence no Cabinet could seriously consider financial and monetary stabilization, and the Government lived on overdrafts without much restraint.

The first Cabinet of M. Moraczewski (November 18, 1918–January 16, 1919), which happened to be a Socialist one—the only Socialist cabinet during the twenty years of Independence—concentrated its attention on social appeasement, necessary in a time of social revolution over all Europe, introducing a vast body of social legislation: the reduction of working hours to eight a day and forty-six a week in industry, mining, transport, and commerce, compulsory social insurance against sickness, general labour inspection, etc.

The tasks of the second Cabinet, that of Paderewski—(January 16–November 27, 1919) were first of all the provisioning of the starving population, the setting up of the new administration, including the fiscal administration, and the passing of the Agrarian Reform Acts.

The pace of inflation then proceeded slowly but consistently. When Paderewski's Cabinet resigned, the dollar was quoted at ninety Polish marks.

In the most eventful years of 1920 the main task was the organization of a new war economy, all other tasks being put aside. Poland's fight in the East turned into a struggle for her very existence, and the new Republic was in extreme danger. The hour of supreme crisis approached in July and August 1920, when the Russian armies were at the gates of Warsaw.

The Cabinet of National Defence, succeeding two other short-lived Cabinets headed by MM. Skulski and Grabski, was formed from representatives of all Parties (First Coalition Cabinet, July 23, 1920–November 9, 1921). Headed by Witos, the great peasant leader,

it struggled desperately to stop the race between exchanges and prices, but without success.

The financial needs were at that time at their greatest, and the strain on the national economy at its heaviest. In July 1920 the dollar rate was 186 marks, but the resignation of the Witos Cabinet found it at the very extravagant level of 3,850 marks.

By the end of 1921 the urgency of the problem of inflation was already acknowledged by public opinion, which was widely discussing the implications of the various programmes of financial recovery. The public saw quite correctly what ought to be done, but the executive machinery was too weak to impose all the hardships and sacrifices needed for carrying out the necessary programme.

The period from November 1921 to December 1922 was covered by four short-lived Cabinets of experts, with plenty of goodwill, but too weak to impose their authority, as they had not sufficient support in the Diet.

The first serious attempt at financial reconstruction came from the first of these Cabinets, formed by the Rector of Warsaw Polytechnic, A. Ponikowski, with Professor Michalski as Minister of Finance. Its main proposals were as follows.

Michalski submitted to the Sejm a whole programme of monetary and budgetary reforms, asking for powers for its execution. His programme was adopted by the Diet, but executed only in part. He asked for a reduction in the number of Army officers and State officials, the abolition of various Government departments, a reduction in various public services, an improvement in the financial administration, the reorganization of State monopolies and the imposition of new taxes, among them a special capital levy (*danina*). Three Ministries were altogether abolished; those of Food, of Culture and Art, and that for the former Prussian Provinces.

It was hoped that the capital levy would bring in 80 to 100 milliards of Polish marks, which would serve to withdraw from circulation one-half of the inflated currency, and at the same time to stop new issues by balancing the budget. On this basis a new currency was to be issued by a specially created Central Bank which was to replace the existing Central Bank (inherited from the Occupying Powers).

From a financial point of view, the whole programme was a definite success. The dollar rate fell from 4,550 marks in the middle of November 1921 to 4,232 marks at the beginning of March 1922, and to 3,957 at the beginning of June 1922. But a very severe deflation crisis began, which threatened the whole edifice of a weak economy poisoned by a long inflation. The blunder of Michalski's programme was that he was not content with stabilizing the mark, but attempted its revalorization. As the dollar rate fell, a dangerous crisis arose, due to price, wage, and credit maladjustments. The number of unemployed rose to 200,000 and more. As prices fell, the employers

tried to enforce wage reductions, as well as readjustments in social legislation, and in Upper Silesia they partially succeeded. This was the beginning of a great wave of strikes. The Cabinet was too weak to carry out all the measures implied by such a policy, and it was soon replaced by other Cabinets.

In the second half of 1922 the dollar rate jumped substantially from 3,957 marks to 18,075 at the end of the year, and inflation proceeded with ever-increasing rapidity.

After the failure of Michalski's reform no other wholesale attempt at financial recovery was undertaken until 1924, apart from General Sikorski's attempt to prepare the way for future recovery. Sikorski's Cabinet¹ of Pacification (December 16, 1922–May 26, 1923), formed to preserve internal order after the assassination of President Narutowicz, summoned to Warsaw on January 9, 1923, a conference of experts, to which were invited all the former Ministers of Finance, who were asked to draw up a programme of reform under the ægis of the President. It was agreed to increase revenue and decrease expenditure, and in the meantime to contract loans for making up the deficiency. The conference advised the revalorization of all taxes and the introduction of a fixed monetary unit of account (the złoty unit based on the index of wholesale prices) for revenue, expenditure, and public credit.

Sikorski also sought advice on the problem of financial reform by calling upon a committee of foreign experts. On his initiative the first invitation was sent to Mr. Hilton Young, formerly Under-Secretary of the Treasury in Great Britain, who visited the country in October and November 1923. He followed this up in February 1924 by presenting a report on the financial position of Poland.

It was not possible to carry out the Cabinet's financial programme, partly because of opposition in the Sejm and partly because the life of the Cabinet was too short.

The peak of inflation was reached under the Right Centre Cabinet (May 28, to December 14, 1923). At its coming into office the dollar rate was 53,375 marks; when it resigned the rate had reached 6,050,000 marks.

After long hesitation this Cabinet adopted, though only in part, the programme drawn up by the conference of experts in Warsaw of January 1923. The Act of July 6, 1923, introduced an extraordinary capital tax on forest land, and that of August 11, 1923, a general capital levy on all wealth. This latter tax was conceived as a quota tax to be collected during the years 1924–6 to the amount of one thousand

¹ The Cabinet of General Sikorski, the future great leader of the Polish fight in the present war, was not only a cabinet of Pacification but also of the final settlement of the frontiers. During his tenure of office the Ambassadors' Conference on March 15, 1923, recognized the new frontier with Soviet Russia and with Lithuania drawn by the Treaty of Riga, and the dispute about the Eastern frontiers was finally settled.

million gold francs, one gold franc being defined as equivalent to 20,000 Polish marks. This quota was to be imposed on all private property exceeding 3,000 gold francs in value, divided among three main groups of taxpayers:

| | | |
|--------------|------|---------------------------|
| 500 millions | from | agriculture and forestry; |
| 375 | „ | „ industry and trade; |
| 125 | „ | „ other sources. |

The rates were progressive, varying from 1.2 per cent. to 13 per cent. on the capital value, but if the required quotas were not secured, the tax might be augmented, while in the opposite event it could be reduced. But the Act itself very soon became ineffective as the pace of inflation accelerated, since the rate of 20,000 marks to one gold franc was soon surpassed.

Next came the Act of December 6, 1923, which imposed a valorization of all taxes, customs, fees, railway, and postal tariffs, as well as of the credits granted by the State and other public authorities, on the basis of the zloty account unit. But the zloty account unit was based not on its relation to the index of wholesale prices, as Grabski had demanded, but on its relation to the value of gold. The Act never came into force, as the Cabinet fell a few days later.

The trouble was that this Cabinet's policy was based on the principle "Too late and too little". The Acts were not interlinked, and were indeed inconsistent. The Cabinet could not exact price-control or heavy taxation from its supporters, who came from the ranks of big business and the landlords, neither could it enforce control of wages or the sacrifices needed on the part of the whole population through lack of confidence and authority. Its whole activity was undermined by the distrust which it encountered among the masses of the population.

The economy practised in one section of the budget was cancelled out by new expenses in other sections, especially in regard to farmers and co-operatives. The new Ministry of Agrarian Reform was called into existence, and new expenditure on land reform was called for and granted. The railways accounted for half the total deficit of the Treasury. In 1923 the railway deficit represented 52.8 per cent. of the whole deficit. The budgetary expenses as a whole rose from 890.2 million zloty in 1922 to 1,118.8 million in 1923, and the deficit from 362.2 million to 692.0 million.

Tax receipts dwindled, and there was a general call for credits. Since the main source of credit was the State Central Bank, the granting of credit became a function of the State. The normal business of creating credit became a political issue, and this brought about an atmosphere of corruption in public administration.

The main point was, that time was the chief source of enrichment. To delay for three months the payment of taxes or debts, or to be

granted a credit, was equivalent to enrichment. The constant depreciation of State bonds and of savings of all kinds was regarded as a blow to the State's authority, an injury to all decent people, and a boon to speculators and racketeers of every kind. The position of the Treasury was desperate, as the incoming revenue quickly depreciated while the rate of expenditure rose.

The pace of inflation may be seen from the following figures. The volume of money in circulation was 909,000 million marks in January 1923, 11,198,000 million on September 30, 1923, and 125,372,000 million in December 1923. But the speed of depreciation was already quicker than the speed of increased circulation. The dollar rates at these three dates were: 35,000 marks, 350,000 marks, and 6,400,000 marks respectively. Thus the value of the circulation as a whole depreciated in spite of the steady increase in its amount. For instance, on September 30, 1923, it was equivalent to 32 million dollars, while on December 31, 1923, it was equal only to 19 million dollars.

During the period of office of the Right Centre Cabinet inflation entered its last phase, superinflation; i.e. it ceased to be a source of income for the Treasury; on the contrary it was a source of constant default, and threatened the whole edifice of private economy, in trade and industry as well as in domestic economy.

The vicious circle constituted by prices, wages, and foreign exchange rates became a delirious race. The ordinary employees, as well as civil servants and officers, were unable to live on their earnings, as the sum they had brought home at the beginning of the month had already depreciated by more than half a fortnight later. The State employees and railwaymen asked for increases in salary, but the Government, which was determined to carry out its financial reform, refused to grant them. The words of Witos to the representatives of employees and workers became famous: "I will not give you anything; it would make things still worse."

In the autumn of 1923 a wave of strikes swept all over the country. In October the railway drivers struck, and later the other railway employees and postmen. The Cabinet responded by ordering the Army to take over the postal services and the railways. The workers retaliated by proclaiming a general strike on November 3, 1923. In Tarnów and Boryslaw this led to riots and bloodshed, but the most spectacular rioting took place in Cracow on November 5. The outcome was a success for the workers, who controlled the town completely for a whole night. The military control of communications was called off at once, but soon afterwards the Cabinet fell through the sheer weight of its own failures and blunders.

6. GRABSKI'S REFORM

GRABSKI'S Cabinet (December 19, 1923–November 13, 1925) faced the urgent task of financial reform. This task now predominated over everything else, since inflation threatened the whole edifice of public and private economy with complete disintegration. On January 8, 1924, the dollar rate reached the level of 10,125,000 marks, and for the end of January transactions took place at the rate of 20,000,000 marks.

The main issue facing Grabski was whether, after the example of Austria and other small nations, to address himself to the League of Nations for financial help with foreign control, or to achieve financial reforms by means of the country's own resources without any outside help. There were strong arguments for either course, and both were widely discussed by the public and presented in an extremely clear way by Hilton Young, the British expert, in the report he submitted to the Polish Government in February 1924.

In Poland there were two main schools of economic, or rather political-economic thought; one centred in Cracow and headed by the distinguished scholar and statesman, Professor Krzyżanowski, which supported the cause of financial reform with foreign co-operation, whether of the League of Nations or of the U.S.A.; the other centred in Warsaw, and headed by W. Grabski. The latter was a strong adherent of the doctrine of recovery through the country's own means and efforts alone. His attempt at financial reconstruction of the country, the first serious effort at thorough monetary and financial reform, was based mainly on giving full play to psychological factors, the restoration of the people's self-confidence, the sincere intention of the Government to depart from the policy of inflation, and drastic fiscal measures to enlarge the Treasury's basis of revenue.

A new Central Bank was founded in April 1924 as a joint-stock company with a capital of 100 million złoty. This bank, the Bank Polski, assumed responsibility for exchange stabilization with a new currency, the złoty, equal at par to the gold franc (the dollar parity was 5.18). The statutory cover was based on a "gold exchange standard". The minimum cover in gold or foreign exchange required by the statute was 30 per cent. At the end of June 1924 the cover of the note circulation (337.4 million złoty) amounted to 83.88 per cent.

The old marks were converted at the rate of 1,800,000 marks to the złoty, and taxes, prices, and wages were valorized. The old taxes were raised, and new tax on capital amounting to one milliard gold francs, already introduced by the Witos cabinet, was revalorized and collected with great vigour.

New fiscal monopolies were introduced, such as the match monopoly, leased to the Kreuger concern, and the tobacco monopoly. Some

foreign credits were issued on severe terms—the Kreuger credit for the leased match monopoly, a 7 per cent. Italian loan in connection with certain commercial rights for the tobacco monopoly, and finally an 8 per cent. dollar loan granted by the house of Dillon, nominally for 50 million dollars, of which to begin with only 23.5 million were realized.

It very soon became clear that Grabski's attempt was not successful. It failed after it had been in operation for a year and a half. No single cause was responsible for the failure, but many closely interconnected factors which operated in the background of the reform.

The reform was neither linked organically with a thorough balancing of the budget, nor with Poland's introduction to the credit markets of the great world centres; further, it was not backed by effective control of prices and wages.

The Budget deficit in 1924 amounted to 190 million złoty (gold francs), covered for the greater part by an issue of token coins and fiduciary notes. From the beginning of 1925 the position of the Treasury became aggravated and in the middle of the year "the fiscal front was broken". The return from the capital levy, on which the Government had counted, had failed. Moreover, Grabski's programme was overcharged, attempting to do too many things at the same time. The task of financial reconstruction was overlaid by that of building new State factories and enlarging the range of the State's economic activities.

The amount of fiduciary notes and token coins issued by the Government to cover the deficit rose between January 1925 and July 1925 from 139.3 to 284.6 million złoty.

There was also a disparity between the internal and external values of the złoty. The general level of wholesale prices in gold (1914=100) rose between December 1924 and March 1925 from 95.0 to 121.6. The Government's method of revalorization of prices on a gold basis (the gold franc had been introduced as the unit for revalorization in the early period of reform) was adopted also by private businesses, and this brought about a race in prices.

The level of wages was strictly related to the cost of living index calculated by the Special Committee of Statistics in Warsaw. On January 15, 1924, eight days after the stabilization of exchange rates on the foreign exchange market, a rise was announced for the period January 1–15 of 89.6 per cent. and on February 1 a further rise of 3.7 per cent.

The automatic rise of wages related to the cost of living index was one of the greatest blows to monetary reform.

The disparity between the internal and external values of the złoty was shown by the growing adverse balance of foreign trade, which for the first seven months of 1925 amounted to 62, 48, 69, 94, 80, 66, and 97 million złoty per month respectively.

The foreign credit markets were practically closed. Only small long-term credits were granted on harsh terms. Larger credits were granted on short term, and afterwards proved a threat to stabilization.

The financial centres asked for the economic control of Poland by the League of Nations, but this was always rejected by the Polish people as a limitation of their political sovereignty. The financial centres asked also for a final economic, or rather political and economic, settlement with Germany, which, however, in the middle of 1925 declared a tariff war on Poland.

This tariff war was the final blow to Grabski's reform. It was a signal for the general recall of large German short-term credits, and to some extent of other credits also. The second issue of Dillon's 8 per cent. loan had fallen through, owing mainly to the tariff war.

The reform collapsed at the end of August 1925. The gold stock of the Bank Polski was depleted and it was unable to maintain the legal rate. The process of steady depreciation of the zloty began, and lasted until May 1926.

During the first three months after the first depreciation of the zloty, Grabski succeeded in stabilizing it at the rate of 5.98 to the dollar. But the situation became worse when the Bank Polski's gold reserves became increasingly depleted. Finally the Bank came to the conclusion that the existing rate was untenable. This was bitterly disputed by Grabski, who regarded it as a personal blow at his reform. On November 12, 1925, the President of the Bank Polski, M. Karpiński, refused any longer to support the rate of exchange, and the dollar rate rose to 6.50. Grabski offered his resignation to the President on the following day.

7. THE SECOND POLISH INFLATION AND ITS POLITICAL EFFECTS

AFTER Grabski's resignation Poland entered on a critical period, economically and politically. The people's disillusionment with their political institutions, the second inflation which again threatened the very life of the nation, the feeling of frustration after great sacrifices had been asked for financial reconstruction brought about a wave of social unrest. The unemployment figure rose to over 250,000 at the end of 1925. The dollar rate rose constantly, in May 1926 reaching 10.55 zloty. The cost of living index also rose, though not in the same proportion. The feeling of uncertainty led to a general withdrawal of bank deposits and savings, resulting in heavy losses to depositors. Twenty medium-sized and small banks failed or went into liquidation in spite of the action of the Government, in granting them substantial credits.

The seriousness of the situation was reflected in a wave of strikes and demonstrations all over the country. In these circumstances, after a Cabinet crisis lasting seven days, a Second Coalition Cabinet was formed (the first had been formed during the Russian invasion), uniting all the leading parties under a non-party premier, Count Skrzyński. Its Minister of Finance was M. J. Zdziechowski. His programme of recovery was an honest and sensible one. His main charge against Grabski was excessive optimism and the overburdening of private economy. In his address to the Sejm on December 10, 1925, he pointed out that Grabski had had at his disposal during his two years of office an extraordinary revenue of 1,232 million zloty, of which 735 million were used for covering the budget deficit.

His main advice was modesty and economy in living. The choice which he put plainly to the Sejm was between: (1) substantial cuts in expenditure; (2) inflation; and (3) Treasury default. He decided on the first course, and asked the Sejm for powers to reduce expenditure by 500 million zloty.

The vicious circle of price and wage increases had to be broken by ceasing to use the cost of living index as the automatic basis of wage adjustment. Zdziechowski's further programme included economies on the railways which cancelled a substantial part of their deficit, the commercialization of State enterprises and monopolies, and the reform of taxation, under which extraordinary taxes, especially the capital tax, would be replaced by ordinary taxes, particularly the income tax. This immediate and minimum programme was to be followed up by foreign loans for stabilizing the currency, based on the test of a real balancing of the budget.

But the programme as a whole could not be carried out, since it was strongly opposed by the Socialist party, which shared control of the Government. This party regarded the programme as a challenge to the working class, which, under the strain of the continual rise in the cost of living as well as of unemployment, had now to face a reduction of wages and salaries. On April 20, 1926, the Socialist party left the coalition, and the Cabinet, after an endeavour to resist the test, resigned a fortnight later.

The remainder of the coalition, i.e. the Right Centre, formed another Cabinet on May 10, 1926, but it was ousted by Piłsudski's *coup d'état* on May 12-13. The Parliamentary era passed away, and was succeeded by the Piłsudski régime.

The *coup d'état* had all the outward signs of a Left-Wing revolution against the forces of the Right Wing. The military action was accompanied by sympathetic strikes of workers, a strike of railwaymen, and even an attempt at a general strike proclaimed by the Socialist party. Left-Wing parties such as the Radical Peasant party (Wyzwolenie) and the Socialist party, applauded the *coup d'état* in

their declaration of May 18, 1926, demanding the immediate dissolution of the Sejm and the formation of a Left-Wing Cabinet entrusted with the task of social and economic reform.

But the Left was very soon disillusioned as Piłsudski became the real master of Poland. He finally abandoned the Left in May 1926, and his intention in this regard very early became evident.

On May 14 President Wojciechowski resigned, as did also the Right Centre Cabinet. The Provisional Presidency was taken over, as the Constitution provided, by Rataj, Marshal of the Sejm, who on the advice of Piłsudski entrusted Bartel, professor at the Higher Technical School in Lwów, with the formation of a Cabinet. The character of this Cabinet was centre-minded with perhaps a slight tendency towards the so-called intelligentsia radicalism. New men came on to the political scene. The new members were university professors, doctors, technicians, generals, and civil servants. Four professors took office in the Cabinet—Bartel, Broniewski, Makowski, Mikulowski-Pomorski. Marshal Piłsudski took over the Ministry of War, which he retained until his death on May 12, 1935.

In a press interview published shortly after, Piłsudski explained that the terms Left and Right had, since the War, lost their meaning, and that he was in favour neither of Left nor Right, but of social equilibrium. He personally, he said, had always refused to belong either to the Polish Left or to the Polish Right; he did not wish to belong to any party, and did not acknowledge party rule over Poland. As he himself put it, his revolution ought to be without any revolutionary consequences. The one thing to be achieved was a moral cleansing of the administration and the abolition of party rule.

The old Parliament was left unchanged and passed quietly away until its legal term came to an end on November 28, 1927. The National Assembly legalized the *coup d'état* after a fashion, electing Piłsudski the new President of Poland by a majority of 292 votes to 149, but he declined the office for the same reason as in December 1922, and having achieved a quasi-legitimation of his action by the same acting Parliament, proposed his friend Professor Mościcki of Lwów for the Presidency. Mościcki was elected on June 1926. Bartel's second Cabinet (June 8, 1926–September 24, 1926), of the same character and with more or less the same members, was then formed, and was followed by eleven other Cabinets formed during the Piłsudski régime (until 1935). There were thus twelve Cabinets in all, which merely, as it was often expressed, "changed the guard". The leading nucleus was the group of Piłsudski's followers, and the authority and central will were his.

As Bartel said to Marshal Piłsudski when his last Cabinet (December 29, 1929–March 17, 1930) resigned: "Your wishes were always to us supreme orders."

8. INFLATION AND THE PARLIAMENTARY RÉGIME

WHY did the Polish parliamentary régime fail? There is no single answer to this question, for many closely connected factors were in operation, some political, others economic in character.

The most obvious of these was the enormous fractionalization of Polish political parties. The first two Sejms included more than twenty parties. The prominent Socialist leader Daszyński in his pamphlet *On the First Anniversary of the Coup d'État*, published in 1927, gives the number of parties represented in the Sejm before Piłsudski's *coup d'état* as twenty-eight. The splitting-up of parties was in a way a legacy of the Partition, since in each part of Poland social and political development had differed and produced a different party machinery, eager to preserve its identity.

The second factor was that certain nationalistic elements represented in Sejm adhered to the democratic idea only formally and in so far as they could make profit out of it.

The best-known leader of the nationalistic movement in Poland, a man of great ability and a serious competitor of Piłsudski, M. Roman Dmowski, published in 1927 a pamphlet entitled *The Problem of Government*, in which, challenging the working of democracy, he outlined the foundations of the "Camp of Great Poland", adopted at Poznań on December 5, 1926, by the nationalist movement, which was greatly influenced by Italian Fascism. Soon after Mussolini's March on Rome in 1922, the Nationalists started a great propaganda drive, which made no real appeal to the public, yet favoured the Piłsudski movement.

We now come to a unique historical factor: Joseph Piłsudski. Piłsudski may be said to have centred in himself all Polish dreams and ambitions, social as well as national. He captured Polish imagination and succeeded in creating a genuine myth about his personality. He had undoubtedly great political vision, which, it may be, declined only in the last period of his fatal illness, but he was a strong personality difficult to place in a constitutional framework. As a matter of fact he was dominated by the idea of legality; he always desired to be constitutional, but never succeeded, except perhaps formally; he was always eager that his actions might have the appearance of legality.

Piłsudski himself had come from the Socialist party, and the Right Wing regarded him as a leader of the Left-Wing movement, as also, until 1926-7, did public opinion. But the first two elections during the period of parliamentary government in Poland brought victory to the Right-Wing parties. As these parties held a majority in the first two Sejms, a clash arose from the outset between the Right Wing, supported by the parliamentary machinery, and the Left Wing, headed

by Pilsudski, who controlled the Army and was authorized to act as provisional Head of the State.

The first period covered by the activities of the Constituent Sejm elected for the purpose of drafting the Constitution was marked by constant clashes between Pilsudski and the Marshal of the Sejm, Trampezyński, the parliamentary leader of the Right.

The Right Wing, which held the lead in Parliament, was manœuvring to restrict the powers of the Head of the State and the future President to a minimum, while at the same time extending those of the Sejm. The so-called "Little Constitution", adopted by the Sejm on February 20, 1919, provided for the absolute supremacy of the Sejm. The Head of the State was to be merely the supreme executive of the Sejm's decisions, whether in civil or military matters. He nominated the Government by agreement with the Sejm, and the Sejm actually created a "Convention of Elders", a cell made up of representatives of the majority parties who in practice nominated and removed the Government at will. When the final Constitution, adopted on March 17, 1921, was drafted, the Right Wing, regarding Pilsudski as future President of the State, manœuvred in the same direction, to restrict the powers of the President and Executive and to enlarge the powers of the Sejm. The French Constitution was chosen as a model for this end. Unrestricted powers were vested in the Parliament composed of the Sejm and the Senate. The Parliament could not be dissolved by the President, except with the consent of three-fifths of the members of the Senate, which was equivalent to making its dissolution practically impossible. The President had to be elected by the National Assembly, composed of the Sejm and the Senate sitting together. The Cabinet or any individual member of the government could be dismissed on a vote of confidence. The President was the head of the Army in peacetime, but was deprived of the supreme command in time of war. The supreme commander was to be nominated by the Cabinet on the proposal of the Minister of War, who was responsible to Parliament for all military operations.

This Constitution was drafted against Pilsudski, who wished to be a real head, not one who possessed merely the external signs of power and was a docile instrument of the political parties in the Sejm. When the election of the first President took place in December 1922, in the first National Assembly, Pilsudski declined to stand. He surprised both supporters and opponents by declaring that he would not be a candidate, as he considered that the powers vested in the President were not sufficiently far-reaching, and he had no desire to hold an ambiguous position.

Thereupon Pilsudski, for four years actual Head of the State and supreme commander of the Army, retired. During the first months he held the posts of Chief of the General Staff and President of the Supreme War Council, under General Sikorski's government, formed

to pacify the country after the assassination of President Narutowicz. But on May 29, 1923, when the new Right Centre Coalition Cabinet was formed, he resigned from the Army altogether and went into private life, declaring that he would not "serve such people". The Army was taken over by his opponents; General Haller succeeded him as Chief of the General Staff, and General Szeptycki became Minister of War. Piłsudski remained in retirement for the next three years, intervening only when structural changes in the organization of the Army were proposed. These he successfully opposed by the representations which he made to the President.

But why did Piłsudski remain for three years in retirement, to strike only in 1926? The answer to this question is to be found only in social and economic history, and it is here that the interconnection between politics and economics comes to the fore.

Piłsudski resigned when the Witos Cabinet took office under the Right Centre Coalition, formed in the spring of 1923 in Lanckorona by the so-called Lanckorona pact. It was predominantly Right Wing in its outlook. After the resignation of Grabski as Minister of Finance the Cabinet was very unfortunate in his successors, such as M. Linde and M. Kucharski, who met with strong popular opposition. The Cabinet had had a rather black record in its social and economic policy. The vicious circle of price-wage-money inflation reached its peak while this Cabinet was in power; its working has already been described.

The economic and social situation was desperate, while no other government was possible under the parliamentary régime, as no alternative majority was available, and the President of the State had no power to dissolve the Sejm.

The weak parliamentary régime was unable by its own power to undertake all the drastic measures necessary for wholesale financial and monetary reform. Firstly, the machinery of Parliament worked too slowly, and many measures considered necessary were obstructed by pressure groups from both the Right and Left Wings. For instance, the Socialists insisted on a machinery of automatic adjustment of wages to price—changes which worked in practice as a vicious circle of prices and wages. The Peasants' parties insisted on tax exemption for small farmers up to fifteen hectares and a free market for agricultural products (*lex Pluta*). The Nationalists sought to avoid taxes on wealth and capital.

In December 1923 W. Grabski came to power. The wide discretionary powers granted to him in January 1924 were the first blow to the parliamentary régime, since Parliament had to give up certain legislative powers in order that financial and monetary reforms might be carried out. His government was not a party one, but called itself Non-Party, and enjoyed the confidence not of the Sejm, but of the President of the State, Wojciechowski. The first vote he received from the Sejm was not one of confidence, but one "taking note"

of his activities. As a matter of fact, the relationship between Grabski and the Sejm lacked mutual confidence.

The Sejm was ruled by Witos,¹ the personal opponent of Grabski. Witos in his political pamphlet *Times and Men* pointed out how Grabski abused the Sejm, by not collaborating with and by overruling it. In this pamphlet he described the Grabski régime as only a semi-democracy, a sign of decay in the democratic régime, and pointed out how badly the "Sovereign People" was treated by Grabski. The most typical expression of this clash between the Sejm and Grabski was the Grabski-Głabiński incident, in which Grabski himself in his book published in 1927 (*Two Years of Constructive Work*) defines his attitude after Głabiński's offensive criticism as a "throwing down of the gauntlet" to the Sejm.

All parties sharply criticized Grabski and hampered his work, as he himself often complained; but, in spite of all this, he remained in office as long as his reforms had any chance of success.

The breakdown of Grabski's reforms did not strengthen the Sejm, for the fall of his Cabinet was due not to the Sejm, where he received a majority vote in October 1925, but to the refusal of the President of the Bank Polski to comply with his plan.

Grabski offered his resignation to the President of the Republic, and on that day (November 13, 1925) the dollar rate rose to 6.20-6.50. Grabski's government was succeeded by the Coalition Cabinet of Count Skrzyński, which survived until May 10, 1926, under the most strenuous social and economic conditions, yielding place thereafter to the Right Centre coalition headed by Witos.

Thus Grabski's fall was interpreted as the failure of even a "semi-democracy". The substantial rise of price-levels in 1925-6 (the Second Polish Inflation), accompanied by a failure to constitute an efficient and lasting Government on a wide parliamentary basis, contributed to further disillusionment with regard to parliamentary institutions on the part of the population.

We may read of this in Witos' pamphlet already quoted, which was published one month before Piłsudski's *coup d'état*. The pamphlet is a masterpiece of political writing from the point of view of foresight, and curiously enough it might have served as a kind of justification of the *coup d'état* of his future opponent.

Witos sketches a complete political programme, which he defines in the six following points:

- (1) Revision of the Constitution in order to strengthen the Power of the President.
- (2) Revision of the electoral law for the Sejm, in order to provide a permanent framework for a strong and durable Government and workable Parliament.

¹ His friend and party follower, Rataj, was the Speaker of the House.

- (3) Strengthening of the political responsibilities of deputies and the liquidation of small political groups.
- (4) Cancellation of the powers of the Courts in regard to elections and the handing over of such powers to the Administration.
- (5) Widening of the powers of the Senate.
- (6) Enlargement of the sphere of civil responsibility of Government officials with regard to fraud, malicious intent, and negligence.

In this pamphlet Witos wrote the following almost prophetic words: "In the event of the Sejm failing to carry out this programme, Poland will be compelled to seek another way out, in order to be able to carry on its work, which may change present conditions utterly, but which may become disastrous for its future."

Curiously enough, the whole programme was carried out by his opponent, Marshal Pilsudski, who struck at the Government just at the moment when it had been taken over by Witos.

The events may be summed up as follows:

The first inflation, which lasted until 1923, brought about the first blow to the parliamentary régime under Grabski; the second inflation led to Pilsudski's *coup d'état*. The destructive forces of prolonged inflation undermined in many ways the common man's faith in the Parliament. In this may be found the answer to the question why Pilsudski waited three years before he struck.

It was no accident that Pilsudski struck against the third Witos Cabinet formed on May 10, 1926, under the same Right Centre Coalition which had made him retire into private life. No other régime was possible under parliamentary conditions, and this régime had already a black record in regard to the rioting in Cracow in November 1923. The historian may come to regard the Cracow riots as the first blow aimed by Polish democracy against itself. Democracy does not tolerate the shedding of the blood of its own people.

9. THE STABILIZATION PLAN

PILSUDSKI'S régime came into power with two slogans: one, the moral cleansing of public life; the other, the stabilization of currency and the balancing of the budget. While the first was very soon dropped, the second remained in the forefront during the whole period, almost to the end. And this slogan barred the way to monetary readjustment later, during and after the Great Depression, when substantial readjustments to the world "monetary revolution" and the new price and exchange levels, after the British and American departure from the gold standard, were acknowledged by experts to be necessary.

The Piłsudski régime stressed the view that a stable framework for all long-term investments must first of all be created by removing the feeling of political uncertainty, financial instability and monetary depreciation. It asked at the start for wide special powers in the domain of administration, economy and finance, and these were granted by Parliament under the pressure of revolutionary forces.

The task of the régime was facilitated by the process of automatic recovery which took place under the influence of currency depreciation and fiscal readjustment in the autumn of 1926. That year yielded the largest export surplus in the whole twenty years of independence, namely, 707 million zloty.

The improvement in exports was especially remarkable in the field of coal, where to the factor of currency depreciation was added the prolonged coal strike in Great Britain. The Polish coal-owners took the opportunity of entering the Scandinavian and Baltic markets, and these were largely retained during the following years, owing in great measure to the high quality and grading of the coal and its punctual delivery. This continued until new quota agreements were concluded with the Baltic countries, by the British Government pursuing a new commercial policy after Ottawa.

From mid-1926 the Government prepared the way for the second stabilization of the zloty, which was finally carried out under the stipulations of the Stabilization Plan of October 1927 in connection with the conclusion of the Stabilization Loan.

The zloty was first stabilized at the level of 9 to the U.S. dollar in the middle of 1926. This level was slightly readjusted in October 1927, when legal stabilization was proclaimed and the zloty became a gold currency at the rate of 8.91 to the dollar. This level in relationship to gold remained unchanged until the outbreak of the war of 1939; it was only raised later on in relation to foreign currencies by the fall of such leading currencies as the pound, the dollar, the franc, etc.

Some steps also were taken during 1925-6 and later to ease the fiscal position. The automatic link between the cost-of-living index and the salaries of Government officials was finally broken. The railway budget, which had eaten up so much of the public funds, was separated from the general budget, and the railway administration was put on a basis of its own. The introduction of monthly budgets, though it had many drawbacks from the point of view of long-term planning, was very helpful in the mechanical readjustment of expenditure to the level of fiscal revenue. Some taxes were revalorized, while taxes on rates and customs duties *ad valorem* gave an increased yield.

The actual State revenue in millions of zloty during the period between 1925-6 and 1926-7 rose from 1,570 to 2,127, while the expenditure rose only from 1,806 to 1,971. In 1927-8 the rise

in expenditure was still less than that in revenue, the expenditure amounting to 2,503 million zloty and the revenue to 2,768.8.

Thanks to the budgetary surpluses realized since July 1926, it was possible to call in the token coins and fiduciary notes and to accumulate Treasury reserves which amounted to 196.7 million zloty on January 1, 1927. After the conclusion of the Stabilization Loan the reserves reached the extremely high level of 560 million on February 29, 1928, and became a major embarrassment to the Treasury, which refused to draw the only reasonable conclusion from the accumulated reserves, namely, to decrease the general burden of taxation, unless great public works were to be regarded as necessary.

In the autumn of 1927 the Government proceeded with the final stabilization of the currency and concluded the so-called Stabilization Loan. The way for this loan was prepared by reports submitted by the commission of American financial experts headed by Professor E. W. Kemmerer, which arrived in Warsaw in July 1926.

The loan was arranged with a group of American and European bankers, represented by the Bankers' Trust Company, the Chase National Bank of New York, and Lazard Brothers & Co., who were the fiscal agents. The sum amounted to 62 million dollars and £2 million sterling. The terms were rather harsh, the price of issue being 92, and the rate of interest 7 per cent., while the redemption was provided either by drawing at 103 or purchases on the open market; the loan was to be paid off by October 1947. Its object was to maintain and consolidate the financial results so far achieved by the Polish people's own efforts.

The loan was closely linked with the decision of the leading Central Banks to grant to the Bank Polski a stabilization credit to the extent of 20 million dollars. The Dutch bank was chosen as agent for the realization of the stabilization credit, granted by the Federal Reserve Bank and fifteen European Central Banks. The purpose of these credits—closely related to the stabilization loan—was to break Poland's credit isolation and link her credit system with the world financial markets. They constituted a kind of introduction to world financial centres which was a counterpart to the schemes of financial reconstruction adopted by the League of Nations in the case of Austria, Hungary, etc. From these schemes the Stabilization Plan differed by completely separating its financial provisions from any political stipulations whatever. It provided a break with the credit boycott of Big Finance behind which stood German propaganda.

Simultaneously with the conclusion of the Stabilization Loan and credits, the Stabilization Plan was published in the official Journal of Laws of the Republic of Poland on October 13, 1927.

The currency was set up on a gold basis, the new unit being defined as 1/5,924.44 kg. of pure gold. The ratio to the former zloty parity

was defined as 172 to 100. The notes were made legally payable on demand in gold or gold exchange drafts.

The capital of the Bank Polski was increased from 100 to 150 million zloty; the increase of 50 millions was taken over for the time being by the Treasury at a cost of 75 millions. The Plan determined the restriction of the issue of Treasury notes and the redemption of the Treasury's floating debt (140 million zloty); the temporary limitation of the non-interest-bearing credit of the Treasury at the Bank amounted to one-half of the statutory amount; the compulsory deposit of all free funds of the Treasury at the Bank, the creation of special Treasury reserves, amounting to 75 million zloty, to be deposited at the Bank. The minimum cover of zloty by the Bank Polski was increased to 40 per cent., and this requirement was applied both to notes in circulation and to the sight liabilities of the Bank. The Bank was obliged to carry three-fourths of its minimum reserve requirements in gold coin or bullion, with at least two-thirds of this gold coin and bullion in the vaults of the Bank, while the remaining one-third might be carried under earmark abroad.

In addition, some budgetary provisions were promulgated, such as the continuation of the system of monthly budgets; the separation of the receipts and expenditure appertaining to all State-owned non-commercialized enterprises from the general public accounts; provision for the future organization of the railways on an autonomous basis, a future thorough reform of taxation, and the improvement of the banking situation.

The detailed expenditure of every State department was to be approved by the Minister of Finance, and without his authorization no reallocation of revenue from one purpose to another could be sanctioned. All Government receipts and disbursements were to be made through the Bank of Poland, the Post Office Savings Bank, or the Treasury cashiers' offices.

The inflow of foreign credits was to be controlled by the Government together with the Bank of Poland, and, on the Bank's advice, steps might be taken to suspend or restrain private external long-term borrowing if the Bank should consider that this was endangering the future stability of the currency.

The Stabilization Plan provided for the election to the Council of the Bank Polski of an American who should act as Financial Adviser to the Bank and the Government and as a representative of the fiscal agents of the loan. His function was defined as "to assist and advise the Bank in relation to its duties under the Stabilization Plan" and "the Government through the Ministry of Finance as to the various measures provided for in the Plan". His chief function was, in reality, to submit a quarterly report on the progress of the reform. He was not vested with the right of decision or veto, either in regard to budgetary provisions or to the financial policy of the Bank of Poland.

For this function Mr. C. Dewey was chosen for a period of three years, his term of office coming to an end in the year 1930.

The Plan proved extremely successful, and stabilization became so firmly established that it survived the monetary upheaval all over the world during the years of the Great Depression. The gold standard survived almost until April 1936, when exchange restrictions were finally adopted.

The Bank Polski saw a considerable stream of gold flowing into its strong-rooms, both from the internal unloading of hoards of gold and foreign currency and from the continual influx of foreign credits and further long-term loans. The bullion and foreign exchange reserves of the Bank of Poland, which amounted to 121.7 million gold francs on March 31, 1926, rose to 421.8 million in October 1927 and to 702.0 million at the end of that year. This was equivalent to 1,207.4 million złoty, and represented 120.4 per cent. for bank notes and 72.6 per cent. cover for the total volume of notes in circulation and sight liabilities.

The volume of fiduciary notes issued by the Treasury fell from 470 million złoty in mid-1926 to 428 million złoty at the end of 1926, and to 309 million at the end of 1927.

The improvement in the national accounts was very noticeable, and some figures have already been quoted. The public levies and monopolies estimated in the Budget of 1927-8 to yield 1,671 million złoty yielded actually 2,291 million; the direct taxes 680 million instead of 503 million.

Business conditions substantially improved, and the years 1927-9 were a most prosperous period of rapid development in nearly every domain. The number of registered unemployed fell from 304,113 in June 1926 to 190,546 in June 1927, and to 16,247 in June 1928.

The volume of foreign trade expanded rapidly. Imports and exports had risen constantly since 1926, reaching in 1928-9 their highest level during the whole period of twenty years.

Imports rose in million złoty from 1,539 to 2,892 in 1927, and to 3,362 in 1928, when the import peak was reached, declining slightly to 3,111 in 1929. Exports rose from 2,246 million złoty in 1926 to 2,515, 2,508, and 2,813 in the following years, the peak being reached in 1929.

The figures in złoty are, however, only partly representative, since the values of exports and imports changed owing to the devaluation of money, but the rise in volume was also very considerable.

The large export surplus, amounting to 707 million złoty in 1926, with the influx of foreign capital, very quickly yielded place to large import surpluses in the following years (377 million złoty in 1927, 854 in 1928, and 298 in 1929).

Domestic trade also expanded. The estimated turnover of commercial enterprises rose from 9,214 million złoty to 12,482 in 1927, 15,080 in 1928, and 15,059 in 1929.

The Stabilization Loan proved a key transaction which opened the way for other capital transactions. In 1928 two more American 7 per cent. Loans were contracted with local Governments, one with the province of Silesia, another with the city of Warsaw, each nominally of 10 or 11 million dollars. In 1928 the city of Poznań received a £500,000 7 per cent. Loan from the British Overseas Bank redeemable within 25 years. The city of Gdynia borrowed 4 million Swiss francs from the Schweizerische Bankgesellschaft for electrification at an actual rate of 9 per cent. Large credits, most of them unfortunately short-term, were granted direct to Polish industry or to Polish banks.

The influx of foreign capital lasted for a very short period, three years in all. The Great Depression completely checked this influx, and in fact turned it into a considerable flight of capital, anxious to return home and strengthen its liquidity in its own domain.

10. THE NATIONAL EXHIBITION AT POZNAŃ

THE first decade of great achievement was closed by the great National Exhibition at Poznań, a living record in pictures, statistics, models, and selected products of the ten years' development, and a guide for future plans. The Exhibition was opened on May 16 and closed on September 30, 1929. It was visited altogether by four and a half million people, of whom 300,000 came from abroad. Special facilities were arranged for the Polish emigrants in Germany, France, and the United States. A number of economic and trade conferences, Polish as well as international, were held. Many trade representatives, including some twenty official missions from foreign countries, came to Poznań, and the effect was a substantial extension of foreign relations with Poland.

The size and richness of the Exhibition was impressive. In ground covered it might be compared with the British Exhibition at Wembley. It proved a great success, and paid its own expenses. It contributed greatly to the Polish people's re-establishment of self-confidence in their own force and abilities.

But very soon afterwards there descended upon Poland, as on other countries, the Great Depression, the effects of which were felt with especial force in the East-Central area of Europe.

11. THE GREAT DEPRESSION AND THE EPIC BATTLE OF DEFLATION

THE Great Depression, which destroyed the political and economic structure of some of the major countries of the world, also dealt a heavy blow to the national economy of Poland. It descended upon

the country at a moment when she had large financial reserves, both in the hands of the Government and in private businesses. But as an agricultural country Poland was mortally affected by the prevailing severe agricultural world crisis, the worst for eighty years, by the growing restrictions on agricultural imports, by the sudden complete stoppage of the influx of capital, and finally by the prohibition of overseas emigration. The stoppage of foreign investment credits was aggravated by the sudden calling-in of short-term credits.

Besides this, the shadow of German political revenge had begun to loom over Central Europe, and was already to a large extent affecting the confidence of foreign investors of capital. Domestic capital investors became less confident in equal measure, and this resulted in a steady outflow of domestic capital to such financial centres as Paris, Zurich, London, and New York.

The hardships and drawbacks of the Great Depression were much increased by the false monetary doctrine adopted by the Polish Government which may be described as monetary orthodoxy. This orthodoxy was due to several factors. One was the special monetary psychology of the Polish people, which exhibited certain abnormalities due to the effect of the long process of inflation. Another reason was the monetary and budgetary programme of the Piłsudski régime, which regarded the balancing of the budget and currency stabilization as its greatest and most lasting achievements. After all, the Stabilization Plan had been adopted so recently and with such great publicity that it was very difficult to close the whole chapter and start anew. The Piłsudski régime laid great stress not only on currency stabilization but also on financial solvency towards foreign creditors, both for the sake of the prestige of the State and for political reasons.

The volume of savings, which had completely evaporated during the inflation, had been built up once again during the previous few years and had reached a considerable bulk, especially in the large State banks, the depositors being to a large extent civil servants and industrial employees. The problem of retaining the confidence of these depositors and the strong pressure exercised by this influential group of interested investors were important factors barring the way to monetary readjustments. The volume of savings in banks of all kinds rose (in million zloty) in the years 1927-1932-1936 from 251 to 989 and 1,271 respectively, reaching its peak of 1,537 in 1938.

The strong bureaucratic State with its ability to impose its will on the people at the cost of great sacrifice was in this respect an obstacle in the way of the necessary readjustment, and greatly delayed the process of recovery in Poland. It was responsible for a long and distressing series of hardships and drawbacks

which obstructed the path of the national economy for nearly a decade.

The trends of the Polish business cycle during the period 1924-39 as established by the Institute for the Research of Business Cycles and Prices in Warsaw on the basis of three indices (Production, Prices, and Value of Shares on the Stock Exchange) may be described as follows:

- (1) The period of recovery, lasting from 1924 to the spring of 1925.
- (2) The period of depression, from the spring of 1925 to the middle of 1926.
- (3) The great recovery, with its boom in 1928-9.
- (4) The Great Depression, from the autumn of 1929, reaching its lowest point in 1933.
- (5) The period of stagnation with very slight improvement, from this time to the spring of 1936.
- (6) Substantial recovery, until 1939.

The Great Depression did not really lift until the spring of 1936. It lasted at least three years longer in Poland than in the British Commonwealth.

Between 1929 and 1933, the monetary value of the national income dropped by 49 per cent. (in Great Britain by 9.5 per cent.), and its real value by 25 per cent. (in Great Britain by 5 per cent.).

The index of wholesale prices fell between 1928 and 1933 by 44 per cent. and between 1928 and 1935 by 46 per cent.; the index of domestic agricultural wholesale prices by 48 and 56 per cent. respectively; the index of industrial wholesale prices by 41 and 43 per cent. respectively; the index of industrial shares by 79 and 71 per cent. respectively; the cost of living index by 33 and 40 per cent. respectively; the index of wage rates of industrial workers in large and medium-sized industries by 22 and 28 per cent. respectively.¹

The number of registered unemployed, although this is not wholly representative of the real scope of unemployment, rose (in thousands of workers) at the end of the years between 1928 and 1933 from 185 to 343, in 1935 to 403, and in 1936 to 466.

The collapse of the internal price structure was but a result of the "world revolution" in prices and money. The Government fought a grim and hopeless defensive battle against this price revolution, without realizing its scope and implications. It desired at all hazards to retain the gold standard so lately restored at tremendous cost and now consolidated in the Stabilization Plan, and having made up its mind to this, it began the gigantic task of readjusting every element of the national economy to the rising value of money; but it succeeded only partially in fulfilling its purpose.

¹ *Monthly Statistical Tables relating to Business Conditions in Poland.* Published by the Institute for Research of Business Cycles and Prices in Warsaw.

The general motto was internal deflation of the whole structure of national prices—wages, taxes, and rates. The struggle itself had something of an epic character, but it led only to disillusionment and failure.

Let us now consider the tasks which the Government faced, and in how far it was successful in accomplishing them.

The compulsory readjustment of industrial to agricultural prices was one of the first tasks, since industrial prices were largely maintained by monopolistic and cartel agreements. At the beginning of 1931 the Polish Government started a price-lowering campaign, and this was continued in 1933 by the Government of Prystor who, on March 28, 1933, was given by Parliament special powers for the control of cartels. The closing of the so-called "price-scissors" was one of the most important but difficult tasks. The index of the wholesale prices of articles sold direct by farmers (A) fell, according to the Polish Institute for Economic Research, by 57.4 per cent. during the period 1929-33, that of wholesale prices of articles bought by farmers (B) by only 27.4 per cent. During the period 1929-36 the respective figures were 61.3 per cent. and 35.4 per cent. The Polish Institute for Economic Research evaluated monthly the latitude of the "price-scissors" as a ratio $\frac{A}{B}$, the relation in 1928 being taken as unity. In 1933 it was

0.59, and in 1934, 0.53, reaching then its greatest latitude. The farmers were unable to buy tools, fertilizers, and their industrial consumers' goods. The disparity between these prices was one of the greatest preoccupations in the economic problems of Poland, and caused a vast amount of trouble in the economic, social, and political spheres.

But the disparity between agricultural and industrial prices was but one instance of many price disparities which really covered the whole field of national economy. The stronger the industrial organization, the more successful was the resistance of its price level, and this greatly encouraged the process of cartelization in Poland. The tide of cartelization rose during the Great Depression and the Government fought to stem it, the "battle against the cartels" being one of its slogans which had an immense popular appeal. But its struggle was only half-hearted and hopeless, since cartels represented a powerful concentration of effective power, often connected with the extensive State-owned enterprises and well protected by restrictive tariffs and quota regulations.¹

The second great task was the readjustment of wage and price levels, as both likewise showed a marked disparity. The index of

¹ The "price-scissors" between cartelized and other prices can be seen in the indices for wholesale prices for raw materials and semi-manufactured goods. During the period 1928-36 the index of cartelized prices fell (1928=100) to 75.4, while the index of prices dependent on foreign markets declined to 46.0 and that of prices of other raw materials and semi-manufactured goods to 50.9.

nominal wages over the whole field of industry declined by 16 per cent. during the period 1928-33, while real wages rose by 24.6 per cent. During the period 1928-36 the index of nominal wages declined by 21 per cent., while real wages rose by 36.2 per cent.

This does not mean that the real income of wage-earners, taken as a class, improved; on the contrary it dropped in 1929-33 by 22 per cent. owing to total or partial unemployment.

The disparity between prices and wages was, of course, different in every industry and occupation. The black-coated workers, salary-earners, and Government officials were better off than the industrial workers. (The index of real income of salary-earners in 1933 was 104, the income of 1929 being taken as 100.) The industrial workers in large concerns were better off than those in smaller crafts, and these again than the agricultural labourers. As a rule the skilled workers were better off than the unskilled. Also the strength of local and combined Trade Unions, i.e. the strength of their bargaining power, was responsible for the rate of decline in wage rates.

The Government tried to adjust nominal wages to the changes in the price structure and to weaken the bargaining power of the Trade Unions, both for economic reasons and also for political reasons of its own, and in this it to a large extent succeeded. But, taking the process as a whole, it proved once more how extremely difficult it is to lower nominal wages and how great an importance the workers attach to these, regarding every reduction of them as directly affecting their prestige and social status. The weakening of the political influence of Trade Unions was somewhat of an obstacle to the economic readjustment, since every lowering of wages was a weapon in the hands of political opponents.

The third great disparity was between prices and debts. With the fall in prices the real value of debts rapidly increased.

The cases of maladjustment in industry, agriculture, and housing were obvious and striking. The farmer who had mortgaged his estate with a debt equivalent to one-third of its total value, often found after a few years that the debt covered perhaps its whole actual value. Private investors who started to build a house with two-fifths of the building cost mortgaged, found themselves later deprived of their whole capital. Moreover, this was greatly aggravated by the high rate of interest charged on the long-term loans.

All the elements of credit were maladjusted to the new levels: the nominal capital value, the rate of interest, the terms of amortization (redemption date). The greatest maladjustment was felt in the field of mortgage credit, especially for agriculture and long-term debenture bond issues. Both private debtors and the Government strongly felt the necessity of credit readjustment. The Government, under pressure from farmers and other groups of debtors, as well as under that of economic logic, encroached upon the whole field of the private

relationships between creditors and debtors, and a thorough revision of the terms of credit was attempted.

By the law of March 17, 1932, the regulations pertaining to the execution of Court orders against farmers were less strictly enforced, and the decree of August 23, 1932, enlarged the powers of the Courts for the suppression of usury. By the law of December 20, 1932, Parliament authorized the compulsory conversion of mortgage loans serving as a guarantee for the issue of ordinary and mortgage bonds by long-term credit institutions. The rates of interest were reduced to a maximum of 4½, 5, and 5½ per cent. The capital repayments were suspended for three years and the redemption periods were prolonged, but not beyond fifty-six years. The Act was extended by a law of March 29, 1933, which reduced interest on the other mortgage loans to 6 per cent. and deferred capital repayments.

Several laws provided for relief measures in respect of short-term agricultural loans, as, for instance, the law of March 24, 1933, the decrees of June 26, 1933 and March 9, 1934. The laws provided certain facilities for credit institutions which were willing to grant to their debtors certain reliefs in respect of short-term agricultural loans or credits. For this purpose the Government created a special banking Institute under the name of the Acceptance Bank (*Bank Akceptacyjny*) on which devolved the task of financing and controlling the conversion schemes of short-term agricultural indebtedness, and rendering assistance to the creditor institutions. The amount of the conversion of these short-term debts rose (in million złoty) from 140 in 1934 to 449 in 1937.

Reliefs in short-term agricultural indebtedness in relation to loans granted by individuals, and not by banking institutions, were arranged by the newly established Arbitration Courts, which dealt with the revision of such contracts.

The obstacles to a wholesale and consistent revision of the debts question were great, and it proved once again an extremely difficult and disturbing process. Wholesale revision was hampered because the Government's view was that to proceed too drastically would mean the checking of the necessary development of the infant investment and credit market.

Finally, it was an extremely difficult task to adjust the whole field of public finance to the rising value of the złoty. Direct and indirect taxes, levies, customs duties, fees, and prices of fiscal monopolies were badly adjusted, and the whole budget was too large when compared with the shrinkage of the total money income, which between 1929 and 1933 fell by 49 per cent.; it was too large on both sides. The outstanding debts arising from taxes proved unrealizable. The Government's internal debt increased enormously in real value, the rates of Government officials' salaries, rents, and pensions were too high, and so on. The taxation rates, especially those which were

progressive, proved badly adapted to the new standard of prices and incomes.

The Government failed in the task of readjusting the many and various fiscal elements of national economy implied in the process. Some fiscal remedies were applied, but only after great delay, and then unwillingly and only in part.

In June 1930 the first big cut in Budget expenditure was made by reducing the estimates for public works by 160 million zloty, at the very time when such works were most needed. The salaries of Government officials and the pay of officers were lowered by 15 per cent. (the pay of Army officers was later increased so that the total reduction amounted only to 5 per cent.) The Government undertook the reorganization of the State administration from the point of view of budgetary economies. The Ministry of Public Works was abolished from July 1, 1932, the Ministry of Agriculture and that of Agrarian Reform were merged, the Emigration Office was abolished, and a wholesale and drastic reform of Unemployment Insurance was carried out.

The actual net budget expenditure declined between 1928-9 and 1933-4 (in million zloty) from 2,841 to 2,231, reaching its lowest level of 2,213 in 1936-7.

But owing to the devastating influence of the Great Depression, the revenue declined still more rapidly. It fell (in million zloty) between 1928-9 and 1933-4 from 3,008 to 1,806, thus reaching the lowest level attained during the whole period.

As the deficit rose (it reached the sum of 245 million in 1932-3 and 371 million in 1933-4), the Government completely reversed its policy of fiscal deflation, and there again began a rise in fiscal rates, direct and indirect taxation, customs, duties, fees, monopoly prices, and railway fares which substantially accentuated the process of price deflation in the domain of private economy.

This was partly due to the rapid decline in revenue on the one side and the growing fiscal demands, especially for help to agriculture, unemployment assistance, and to the necessity of granting emergency credits for industry and banking. The Government very soon exhausted its original large cash reserves, while fiscal reserves in credit granted to industry and agriculture were frozen. The few external loans, especially those obtained in Sweden from Kreuger against the match monopoly (32,400,000 dollars), and 400,000,000 French francs for the completion of the Silesia-Gdynia railway line, were insufficient to fill the gap. The path of least resistance was then chosen by raising the rates of taxation.

The whole process of price deflation as a conscious readjustment to the new world price level was hampered and delayed by the refusal of the Government to bring its fiscal policy into line with these requirements.

The results of the delayed, partial, and disparate process of price deflation were:

- (1) A general disruption of automatic price economy, replaced only partially by general price control.
- (2) Many disparities and disproportions in different fields.
- (3) Disparity between the internal price value of the zloty and its external value.
- (4) General lack of confidence in credit relations.
- (5) A general belief in financial circles abroad, as well as in Poland itself, that as the attempt at price deflation had only partially succeeded, the forced depreciation of standard currencies abroad would compel the Government to go off the gold standard; and this resulted in the flight of capital from the country and the calling-in of short term foreign credits.

As the depreciation of foreign currencies (the pound sterling after September 1931 and the dollar after March 1933) proceeded further and embraced an ever-growing area, the disparity between the internal and external value of the zloty continued to show an ever wider gap. The process of lowering internal prices could not go on for ever, because it gave rise to serious disturbances, and the Government, which had declared the process a *fait accompli* concluded for all time, had been compelled to reopen it many times afterwards. The disparity between internal and external price levels led to ever-increasing prohibitions and restrictions, a change-over to quota regulations, clearing agreements, etc., to restrictions on foreign travel for Polish citizens, and to ever-growing public interference in every domain.

One of the most difficult problems arose in connection with the continuous withdrawal of short-term credits, accentuated especially in 1930 and 1931, and its devastating effects on banking and credit markets. The balance between the inflow and outflow of short-term credits amounted in 1930 to 531 million zloty, and in 1931 to 402 million. Taking into consideration the inflow of long-term capital, especially as a result of the Kreuger loan and the French loan for the Silesian railway, the net outflow of capital during the period 1930-2 amounted to about 370 million zloty.

Great disturbances arose especially in Polish banking in connection with the calling-in of short-term credits. The amount of short-term foreign credits granted to Polish banks declined from December 31, 1929, during the following years (in million zloty) from 673 to 640 (1930), 401 (1931), 292 (1932), and 248 (1933).

The Great Depression dealt hard blows to Polish capitalism, which was always weak, and greatly strengthened and augmented the scope for "Polish *Étatism*".

Besides banking, many great industrial undertakings were taken over by the State, partly from foreign and partly from Polish private ownership.

12. THE PERIOD OF STAGNATION

THE period from 1932-3 to the spring of 1936 may be described as one of stagnation with symptoms of slight recovery, partially under the influence of the relief measures applied, partially under that of the devaluation of the dollar, but mainly because of general recovery in world economy.

The general index of industrial production (yearly average: 1928=100) rose from 53.7 in 1932 to 55.4 in 1933, 62.8 in 1934 and 66.4 in 1935. But this slight recovery arose mainly from the exhaustion of stocks and only to a less extent from revival of investment. The index of production of consumers' goods (1928=100) rose from 61.6 in 1932 to 71.9 in 1935, and that of producers' goods from 41.7 to 61.2. The biggest advance in the sphere of investment goods came in 1936, when the index of production rose to 71.2, while the consumers' goods index increased to 74.5.

Employment augmented very slowly. In mining it still fell (in thousands of workers—yearly average) from 114 in 1932 to 97 in 1933, 95 in 1934, and 92 in 1935; in the smelting industry the changes in employment were small (in thousands of workers—34 in 1932, 33 in 1933, 35 in 1934, and 37 in 1935), in the manufacturing industries employment rose from 324 to 339, 381, and 410 in the following years; in public works employment rose most sharply from 25 in 1932 to 51, 69, and 79.

A slight increase in purchasing power was felt in the domain of the fiscal revenue. The receipts from fiscal monopolies—a very good indication of the population's purchasing power—were more or less unchanged, with a slight tendency to improvement. The budgetary receipts from monopolies were in 1932-3, 1933-4, and 1934-5 respectively (in million zloty) 625, 627, and 624. The budgetary receipts from taxation, in spite of rises in rates, were unchanged during the same period (975 million zloty in 1932-3; 967 and 963 in the following years).

But agriculture was still very far from recovery. Agricultural prices continued to fall and the agricultural crisis became more acute during this period. The index of agricultural prices (1928=100) fell between 1932 and 1935 from 58.9 to 52.4, 46.8, and 43.8; the first rise, to 45.4, occurring in 1936.

The volume of foreign trade still declined. Imports dropped (in millions of zloty) from 862 in 1932 to 827 in 1933 and 798 in 1934, rising for the first time to 860 in 1935. Exports dropped during the

same period from 1,083 in 1932 to 959 in 1933, rising slightly to 975 in 1934 and 925 in 1935.

As we see, the improvement during this period was very slight; it was more marked in industry, especially in the manufacturing industries, than in agriculture, the position of which underwent a still further deterioration.

The Treasury's position became increasingly difficult in spite of the slight recovery in industry. The budget deficit rose (in millions of zloty) from 204 in 1931-2 to 245 in 1932-3 and 371 in 1933-4. A decline in the budget deficit first occurred in 1934-5, when it dropped to 115 million zloty, but the improvement was largely due to the Government's using the proceeds from the National Loan issued in September 1933, amounting to 175 million zloty, as cover for the deficit.

In September 1933 the Government embarked on a new fiscal policy to fill the gap between revenue and expenditure. It turned increasingly to the launching of large national loans of a semi-voluntary character, similar, for instance, to the savings campaign in Great Britain during the present war. It inclined also more and more to the raising of tax-rates and the introduction of new taxation by indirect methods. The decree of November 24, 1935, considerably augmented the rates of income tax and lowered the minimum of exemption from taxation on earned income from 2,500 to 1,500 zloty per year. The decree of November 15, 1935, levied a new tax on salaries paid out of public funds by imposing a progressive scale from 5.5 to 15 per cent. and from 7 to 25 per cent., if no income tax had been paid until then. A considerable new burden was imposed in the form of a tax for the Labour Fund on earnings, salaries, and pensions. The decree of December 31, 1935, raised the rates of tax on capital and rents.

13. THE DEVALUATION OF THE DOLLAR

WITH the spring of 1933 came another event of the greatest importance to Poland: the devaluation of the dollar. This was one of the most serious blows dealt to Polish economy during the Great Depression. Its importance lay in the fact that the dollar in Poland was a kind of general standard of value in all long-term transactions, regarded as the rock of safety and solidity, and was generally used as a store of value especially for hoarding purposes, and to some extent even as a means of payment in the capital market. The depreciation of the dollar was a protracted process which lasted nearly a year and brought many disturbances in its wake, with long-range structural changes in banking, credit, and money, some of them not without immediate and long-term benefits. The aggregate sum of dollar notes hoarded by the people of Poland was estimated at that time at 50 million

dollars. The savings bank and many other bank deposits, especially in the southern provinces, were held in dollar accounts. The dollar really acted as a second currency in Poland, more highly esteemed than the country's own, and destined mainly for capital and long-term transactions.

The effects of this depreciation, and the problems which arose from them, were the following:

(1) A considerable loss, especially by small savers, in the value of their hoarded dollar notes.

(2) A general lack of confidence. The collapse of the dollar, which was regarded as a symbol of safety, diffused a universal lack of confidence in anything and everything, and an unwillingness to undertake any long-term transactions.

(3) The withdrawal of dollar savings and deposits from banks, which caused a banking crisis in many districts and necessitated the extension of the Government's assistance to banking.

(4) Some of the effects were beneficial. For instance, the dollar depreciation led to the general dishoarding of dollar notes and contributed largely to the strengthening of the foreign exchange reserves of the Bank Polski.

(5) The dollar depreciation contributed to a general conversion of deposits and savings as well as of debts, loans, and insurance policies into zloty accounts. At the beginning the conversion was voluntary, but it was afterwards made legally compulsory on a general basis.

The Presidential decree on Claims in Foreign Currencies of June 12, 1934, stipulated that any liability incurred in foreign currencies, if payable in Poland, might be repaid in Polish currency according to the average rate of exchange of the foreign currency quoted on the Warsaw Stock Exchange. It restricted the validity of the so-called gold-clause. Furthermore, the decree limited the possibility of incurring future obligations in foreign currencies, by prohibiting entries in such currencies from being made in mortgage registers. Credit institutions were no longer allowed to accept new deposits in foreign currencies. Mortgages and debentures of long-term credit institutions and the loans serving as guarantees for these bonds were to be converted into zloty. Insurance policies had to be made out exclusively in zloty.

By these provisions, which were facilitated by the depreciation of the dollar, the credit structure became safer and more normal, as both assets and liabilities were reduced to a common denominator and the credit and insurance institutions freed from risks in foreign exchange.

(6) The dollar depreciation was really the greatest relief measure genuinely and generally applied to debts, and had a much greater importance than any legal measure. However, inconvenience frequently arose from a twofold application of the relief measures. Sometimes the lowering of rates, moratoria, and the reduction of the

amount of principal were followed by compulsory conversions of dollars into zloty, with a loss of 40 per cent. or so on the principal.

(7) The dollar depreciation on the whole very greatly strengthened popular confidence in the domestic currency; and the Government played the tune: "Look, the dollar fell, but the zloty remained stable" for all ears to hear, thereby making much political capital out of this rather regretful event in Polish economy.

(8) The dollar depreciation also brought about a genuine relief in the share of foreign indebtedness, which had already begun with the depreciation of the pound sterling. But the bulk of the foreign debt was in dollars. Nevertheless, owing to the very high rates of interest, this relief was inadequate. The aggregate amount of the foreign debts of the State, including war debts, declined between 1933 and 1934 from 4,514 to 3,544 million zloty.

(9) The balance-sheets of many enterprises were affected by the currency depreciation, some of them favourably, some of them (creditors) disastrously. Many credit institutions were on the verge of bankruptcy. A special law of valorization of balance-sheets had to be passed in order to save some undertakings from bankruptcy.

We see that the dollar depreciation produced a large volume of legislation which dealt only with the wide implications caused by the depreciation of a second currency while the first remained stable.

The partisans of the devaluation of the zloty, of whom the present writer was one, asked once more for its immediate devaluation to close proximity with the dollar rate. This was specially needed at a time when on the one hand the international price level expressed in gold again fell with the depreciation of the dollar, and on the other, many disturbances arose in consequence from the rise in the value of zloty in terms of dollars.

But the Government chose the exactly opposite course. It was argued that the benefits of devaluation were spontaneously conferred upon the national economy without harming the prestige of the national currency—and now for the first time the Polish people had an opportunity of appreciating their own currency, which could in the long run only strengthen the monetary and credit structure. Without doubt there was much to be said for this argument from the point of view of long-term development. Thus the depreciation of the dollar had quite opposite effects in Poland to those experienced in other countries.

14. THE WORLD ECONOMIC CONFERENCE

IN THE spring of 1933 new hopes were awakened throughout the world in connection with the World Monetary and Economic Conference summoned to London by the British Prime Minister, Ramsay

MacDonald, after his discussions with President Roosevelt. The Conference opened on June 12, 1933, and was attended by one hundred and seventy delegates from sixty-six nations. It had been hoped that some remedies might be found for the wholesale disruption of international economy caused by the Great Depression and the attempts of individual Governments to shift the burdens of the Depression on to other nations. The optimists averred that co-ordinated international action would be undertaken to restore the normal economic intercourse of nations which would provide for great international public works, international currency stabilization, and an international scheme of financial and trade co-operation.

The Polish Government made thorough preparations for the Conference, holding in advance a National Economic Conference at Warsaw, attended by industrialists and economists of all shades of opinion. Poland, which relied on the restoration of the gold standard and a world economic collaboration of the old type, hoped that the World Conference in London might be a turning-point in finding a way out of the crisis. The head of the Polish delegation, the Under-Secretary of State in the Ministry of Finance, Adam Koc, outlined on June 13 the Polish standpoint on the problem of international reconstruction. He urged the restoration of the gold standard, the stabilization of currencies, the removal of exchange restrictions, the abolition of quotas and other restrictive measures in international trade, the restoration of the international flow of capital and migration movements, and international action for worldwide readjustment of international debts to the new price level.

Unfortunately the Conference was doomed to failure owing to the negative attitude of Germany, as well as that of the U.S.A., which had just embarked on the New Deal and the depreciation of the dollar. The Conference was adjourned, never to meet again. The failure of the Conference on which so many hopes had been centred was extremely disappointing to the Polish people, and ultimately dispelled the belief that the pre-Depression world could be restored. The belief spread more and more that the Great Depression was not a mere cyclical crisis, but one of a structural character which must be regarded as a turning-point in international economy. From this time on the Polish Government embarked more and more on the policy of quotas and clearing agreements, adopting a bolder money, investment, and credit policy. The World Conference may be regarded as the parting of the ways in Poland's economic policy, which put an end to the policy of "Wait and See".

15. THE PIŁSUDSKI RÉGIME

WE WILL return once more to the political scene, and its influence on economic events.

Piłsudski's régime lasted from May 1926 until his death. But as time went on, its social and political values underwent change.

It may be said that, with the passing of time, the régime shifted from Left to Right. The centre-radical intelligentsia of Bartel's first Cabinet were very soon replaced by representatives of the landowners, such as Meysztowicz or Niezabytowski. The Conservative party, especially from the Wilno district, which had had no influence at all during the Parliamentary régime, assumed great importance and controlled some key positions in the Government (Professor Zawadzki, for many years Minister of Finance, came from this party) and administration.

The visit paid in October 1926 by Piłsudski to Prince Radziwiłł at his castle at Nieśwież to decorate the grave of Prince Stanisław was but a manifestation of a new turn in his social policy.

For the support of the régime in Parliament a Government bloc was called into existence by the end of 1927, led by Colonel Sławek, the Marshal's most faithful and chivalrous follower and friend. The bloc was called a "Non-Party Bloc" of collaboration with the Government. This bloc, which took part in the elections of March 4, 1928, included representatives of all the social groups and remnants of all parties, including minorities, ex-Socialists, ex-Populists, and even ex-Nationalists. They had no common programme, but were in agreement on one point only, the authority and leadership of Piłsudski and obedience to the directions of the Government formed under his authority.

The bloc was a unique but unfortunate creation, since it had collected together some of the weakest elements of all parties. Those who responded in large numbers to the call of the Government were the representatives of the landowners and of big business, who provided funds for the elections, looking for protection of their interests in return.

The representatives of landowners and large-scale industry poured in large numbers into the organization, and they obtained an important share of representation in the new Sejm in 1928 as also later in those of 1930 and 1935. Piłsudski's supporters came from social strata completely different from those who had fought with him of old for social and national freedom. As time went on the social composition of the Government bloc became more and more deformed, and, as Piłsudski himself later declared: "the lice crawled over me". This was no unimportant factor in the decision of Colonel Sławek to dissolve the bloc altogether in 1935 after Piłsudski's death, when a new completely non-Party Sejm was called into existence.

We may distinguish two quite distinct periods during the Pilsudski régime:

- (1) from May 1926 until the spring of 1930, the so-called Bartel régime;
- (2) until May 1935, the so-called régime of the Colonels.

The Bartel régime was a transition period, a period of collaboration with the Sejm, and to some extent of compromise. During that period Bartel was five times Premier; in reality six times, for the Cabinet formed by Pilsudski himself (October 2, 1926–June 27, 1928) was, in fact, a Bartel Cabinet, with Bartel as Vice-Premier. Bartel represented the idea of a revised democracy, a compromise between traditional democracy and the new requirements of disciplined living in dangerous times and on a dangerous site.

The minor revision of the Constitution of August 2, 1926, removed the most evident defects of the Constitution of March 1921 and gave more power to the Executive.

The President was given power to dissolve Parliament on the proposal of the Cabinet; elections would then take place within ninety days. During that period the President had power to promulgate decrees having the validity of law, but not on matters relating to the Constitution, the electoral laws, or some other important matters, which were reserved to Parliament. An Act of Parliament might also give the President power to promulgate decrees having the validity of law for a certain limited period and of limited scope. These decrees must afterwards be presented to Parliament within fourteen days of the opening of its session.

The Constitution was also changed by the introduction of certain new and characteristic practices. For instance, the President, when taking the oath, did not come to Parliament as before, but the members of Parliament went to the Castle (Zamek).

This revision of the Constitution restored the equilibrium between Parliament and the Executive; but Pilsudski was not satisfied with this new state of affairs, and manœuvred more and more towards the other extreme, the supremacy of the Executive over Parliament, the very opposite of the position from 1918 to 1924. The work of the Parliament was in many ways hampered; it was deprived of freedom of action, and sometimes was abused in the speeches both of Pilsudski and of members of his Cabinet. The Parliament tried to defend its rights, and a long struggle ensued which ended in its defeat.

When the term of the second Sejm (1922–7) expired, Pilsudski sought to have a Sejm or Parliament of his own, more or less subservient to his will, whose first task was to be a thorough revision of the Constitution. He formally took over the leadership of the Cabinet, formed a Government bloc, and expected a great electoral victory. But his victory was only partial. The elections of March 1928 brought

about the complete defeat of the Right-Wing parties, whose membership fell from 38.7 per cent. of the total seats in the Sejm to 13.0 per cent.; while the Left gained considerably, increasing its representation from 26.1 to 36.5 per cent. The Centre lost, falling from 15.8 to 4 per cent.

The Government bloc, though it had achieved a great success, was far behind the Left, and controlled only 27.5 per cent. of the seats. The third Sejm was not in Pilsudski's hands, in spite of his great efforts, the all-out help of the Administration, and vast propaganda. The people did not respond to Pilsudski's call. And curiously enough the third Sejm, elected during Pilsudski's tenure of power, was much more independent and showed greater opposition to him than did the second, elected in 1922. It was more consolidated on the Left, and there was more willingness among the parties to collaborate.

The Marshal of the third Sejm was Daszyński, a Socialist of great ability and authority, formerly a friend and comrade of Pilsudski in their youthful common struggle for "Socialism and Fatherland". The fight between Pilsudski and the third Sejm (which survived only twenty-nine months, from March 27, 1928, until August 30, 1930) was really a fight between two strong men, Pilsudski and Daszyński, and was full of dramatic moments.

Between the spring of 1929 and the autumn of 1930 the struggle between Pilsudski and the Third Sejm reached its peak.

On March 20, 1929, the Sejm decided to impeach Czechowicz, the Minister of Finance, before the State Tribunal for exceeding the budgetary expenditure by 630 million zloty while no supplementary budget was presented to the Sejm. On June 29, 1929, the Court pronounced for Czechowicz in a vague decision, stating that it considered the charge against him as "premature"; but the whole affair caused a state of very high tension.

Finally in March 1930 the Sejm passed a vote of no confidence in the Minister of Labour, Prystor, who carried out structural changes in the Social Service administration, removing the control of Health Insurance Societies from the hands of the Socialist party. The Cabinet resigned, but in the next Cabinet Prystor came in again with the same powers, and shortly afterwards with even greater powers, since he was called upon to form a Cabinet of his own.

In the middle of 1930 the struggle reached its climax when the Centre-Left parties consolidated their position and formed a Coalition, demanding on May 9, 1930, the opening of an extraordinary session of Parliament by a formal request to the President. The President summoned this extraordinary session for May 23, 1930, but on that date he adjourned it for thirty days, and after the expiration of this period closed the extraordinary session. Thus, though the session was formally opened, the Sejm could not deliberate for a single hour. This behaviour was just a trick, an open abuse of the letter of the law,

and inconsistent with its spirit. The infuriated Left and Centre parties, hampered in their constitutional rights, summoned a "Congress for the defence of the law and liberty of the people" at Cracow on June 29, 1930, which brought together some 30,000 or more representatives of these parties. The Congress passed a resolution demanding "the dissolution of the régime and the re-establishment of the rights of Parliament".

Piłsudski's answer came quickly. He himself formed his second Cabinet (August 25 to December 4, 1930). On August 30 the dissolution of Parliament was decreed. On September 10 came the imprisonment of eighteen deputies, mainly socialist and agrarian leaders, including Witos, from the Centre-Left coalition, in the fortress of Brześć. While the leaders were detained, the General Election took place in November 1930. The election, no doubt under the moral pressure of events, and not without being influenced by the administration, gave a victory to the Government bloc, which hardly surprised anybody who had seen the huge machinery at work.

The Government bloc augmented its strength from 27.5 per cent. of the total seats in the Sejm to 55.6 per cent. (in the Senate to 65.8 per cent.), thus obtaining an absolute majority. As the pressure was directed against the Left-Centre coalition, that coalition was completely defeated, the Left representation falling from 36.5 per cent. of the seats to 9 per cent., while the Right gained, being increased from 13.0 to 17.8 per cent.

The fourth Sejm was a subservient instrument in the hands of Piłsudski, passing any legislation on current affairs that he asked for, and lacking only the qualifying majority needed for the necessary revision of the Constitution.

We now enter on the second period of Piłsudski's régime, the period of the "Colonels' Cabinets".

The Government was carried on by the old Piłsudski guard, the so-called Colonels. The period started with the first Cabinet of Colonel Ślawek (March 29–August 23, 1930), which was followed (after the short interval of Piłsudski's Cabinet during the election) by the second Cabinet of Ślawek (December 4, 1930–May 29, 1931); by the Cabinet of Colonel Prystor (May 27, 1931–May 9, 1933); by that of Jędrzejewicz (May 9, 1933–May 13, 1934); that of Kozłowski (May 15, 1934–March 20, 1935); and the third Cabinet of Ślawek (March 28–October 12, 1935.)

This was a period of tightening-up of political and economic controls, of centralization and bureaucratization of the country, of militarization of all key positions in administration, industry, and trade, and of the final victory of dictatorial principles over those of popular representation.

The Colonels "changed guard", in the control of Cabinets according as they were best suited to the tasks of the moment. When

the primary task was to bring the constitutional issue to an end, it was allotted to Ślawek; when the Great Depression came and the need was to enforce hardship and sacrifice with a very strong hand, Prystor, a very strong and clear-minded man, was called on; the task of educational reform and the overcoming of opposition in the universities and higher schools was allotted to Jędrzejewicz; that of fighting the ever-growing nationalistic and Ukrainian movement was confided to Professor Kozłowski; the duty of watching the transition period during the great crisis which was expected with the approaching death of Marshal Piłsudski was again given to Ślawek.

Piłsudski himself cared for two things only: the Army and Foreign Affairs. The former he controlled directly as Minister of War and Inspector of the Army, and foreign affairs he controlled through his "pupil", Colonel Beck, who took over the Ministry from November 1932 after the resignation of Zaleski. Piłsudski had no interest in economic and financial policy, and frankly admitted that he did not understand the "economic-financial game", but he had some definite ideas about right and wrong in national economy, by analogy with domestic economy. He disliked foreign loans lasting for generations, asked for a stable currency and the balancing of the Budget in the interest of solvency abroad, and applied the principles of honour and independence to economic issues also. His idea was that the economy should serve his foreign policy as well as the interests of defence, and should contribute to the greatness and strength of the country.

Economic policy was really controlled by three Colonels: Matuszewski, Koc, and Lechnicki. Professor Zawadzki, though Minister of Finance, played a lesser role.

The "Colonels' period" must be considered against the background of the devastating effects caused by the Great Depression, which brought about a disruption in economic life resulting in a dangerous wave of social unrest. All this took place under the shadow of German rearmament instigated by Hitler, and the clouds of a coming international crisis.

Piłsudski defended the view that under these circumstances, and in the peculiar geographical position of Poland, no traditional democracy could work; that the people of Poland must find a new form suitable to their own overwhelming tasks and difficult national psychology, and must endeavour to establish a greater coherence and unity which could bear the full weight of coming events. Therefore he asked again and again for a revision of the Constitution which would give overwhelming powers to the President.

But even the fourth Sejm, which brought him a majority of about 55 per cent. of the total, lacked the qualifying majority of two-thirds (with a quorum of at least half the deputies) which was necessary to revise the Constitution. As all parties and minorities opposed the proposals of the Government bloc, the new Constitution could not be

adopted. But as the gravity of Marshal Piłsudski's illness became evident, the Government bloc became desperately anxious to enforce the revision at all costs. Abusing the accidental absence of the opposition parties, on January 26, 1934, the Government bloc moved that the constitutional proposals discussed by the Commission should be regarded as a draft for amendment of the Constitution, and the amendment was adopted by the prescribed majority. It was later revised by the Senate, as Marshal Piłsudski did not entirely agree with the draft, and was finally accepted by the Sejm on April 23, 1935. The final adoption of the new Constitution took place three weeks before Piłsudski's death and marked a new era in Polish history. The new Constitution was supplemented by the Electoral Acts of July 8, 1935.

The new Constitution invested all the supreme power in the President and made him the real ruler of the State. He was responsible only to "God and history". He could ratify treaties with foreign powers, declare war and conclude peace on his own authority; he was Supreme Commander in time of peace and war; might appoint the Inspector-General of the Forces, appoint and remove the Prime Minister, and finally he might appoint one of the two candidates for the Presidency, and in time of war nominate his successor.

The Prime Minister was responsible to the President, and at the same time to the Parliament, composed of the Sejm and the Senate; but there were legal limitations to the vote of no confidence, which could be passed only in ordinary session and needed confirmation by the Senate.

The Senate was composed of ninety-six members, of which one-third were nominated by the President and the rest elected indirectly by an Electoral Convention, whose members were chosen by citizens holding distinctions, orders, or public posts. The Senate was made a subservient instrument of the Government, or rather of the President.

The Sejm was elected indirectly in such a way that a special Assembly of every electoral district, composed of representatives of territorial or economic self-governing bodies and other holders of posts of public confidence, chose four candidates, of whom the citizens could elect two. Voting was voluntary, but citizens could vote only for the Government candidates, since the Government controlled the electoral Assemblies.

Under these circumstances it was not possible for the political parties to put their candidates forward. They therefore decided to boycott the next elections, which took place on September 8 and 15, 1935.

The Constitution of 1921 was drafted for (or rather against) Piłsudski, but Piłsudski did not become President; the Constitution of 1935 was drafted for Ślawek, the supposed successor of Piłsudski, but Ślawek did not become President.

It was assumed that Mościcki would resign after the adoption of the Constitution and nominate Sławek as his candidate, but he failed to comply with the plan agreed on and did not resign. He stated that since he had been elected for seven years in 1933 and the State needed him, he saw no reason why he should resign. Sławek could perhaps have enforced his will upon this very weak President, but his chivalry made this impossible.

Then everything went wrong. The Electoral Acts were an apparent blunder, as Sławek, the author of the Constitution, finally admitted. The elections brought in a non-Party Parliament, a very weak body with no political backbone.

The fifth Sejm of October 4, 1935, was composed of 208 deputies, but had no parties. It must be noted that the Government bloc formed by Sławek was dissolved by himself on October 30, 1935, on the ground that the new Constitution was based on the assumption that no political parties whatever existed, and after all in the new framework no party was any longer needed. This extraordinary political suicide created a vacuum. The Sejm, entirely without parties, was unable to work, since each of the 208 individual deputies became a party by himself. The deputies tried to overcome these difficulties by grouping themselves into regional groups and discussion clubs. This vacuum, accompanied by extremist movements from both Left and Right, threatened the whole edifice of the Republic.

The new political régime was closely associated with and strengthened by the tightening-up of economic controls described in the next chapter.

It is difficult, however, to describe Poland under the new system as a totalitarian State. In all totalitarian States there is a one-party régime, the State being based on the Fascist party, the Nazi party, or the Communist party. But the new régime in Poland was not a one-party, but rather a no-party system.

16. NEW CONTROLS

AFTER the failure of the World Economic Conference, the Government came to the conclusion that old methods had failed, and that a new and bolder policy was required. The change-over, however, did not take place immediately. The Government began its preparations. During the years 1933-6 a vast amount of economic legislation was called into existence. It extended the scope of Government control, and many basic Acts were promulgated which changed the structure of the national economy. These changes can be related in a manner to the constitutional changes which were taking place simultaneously. The new controls in both fields make up in reality a single picture, the preliminary sketch for a new model of a semi-authoritarian State.

A new Industrial Law of March 10, 1934, enlarged the number of concessional industries, and extended the obligation of establishing professional capacity over a wider field of professions.

The new Commercial Code, published in 1933 and brought into effect at the beginning of July 1934, replaced the old Austrian, German, and Russian legislation throughout the whole of Poland. Among other things, it provided for the closer supervision and control of joint-stock and limited liability companies.

The Co-operative Associations Law of March 13, 1934, introduced restrictions on the formation of new co-operative associations, compelling them to become members of auditing unions, and providing for frequent supervision and public control. The right of control was transferred from the Council of Co-operative Associations to the Minister of Finance or to the Chairman of a Council appointed by him.

The Law of March 16, 1933, created a Labour Fund with the object of providing work for unemployed persons on public works. The Fund was financed by a special tax levied at highish rates on earnings, salaries, and pensions. In addition, it received contributions from enterprises and communal associations, subsidies from the State Treasury, and tax arrears which were to be paid in kind. The Fund became a large accumulation of resources, exceeding 100 million zloty in its first year. It financed public works and stimulated other investments.

The Law of October 29, 1934, relating to communal savings banks, established the control of the Minister of Finance over these banks. It created a Guarantee Fund for them with the object of ensuring the safety of the deposits. The Fund was made up of yearly contributions from all banks, amounting to 5 per cent. of the net annual profits of every bank, to be paid until the Fund equalled 2 per cent. of the total amount of the savings deposits in all these banks. Thereafter their yearly contributions might be reduced to 1 per cent. of their annual profits. Control over the activities and administration of the Fund was given to the Minister of Finance.

The Decree of November 28, 1935, which modified the Law of March 28, 1933, gave the Minister of Industry and Commerce substantial new powers of control over cartels. It empowered him to cancel any cartel agreement which he might regard as harmful to the national economy, but with the proviso that any member of the cartel association might within fourteen days apply to the Cartel Court, demanding the withdrawal of the Minister's decision; such an application, however, could not prevent his decision being put into effect.

The most radical change-over came only in the spring of 1936, with the Decree of April 27, 1936, introducing foreign exchange control. This opened a completely new phase of development which definitely

led to a pattern of economic planning. This decree was the basis of extensive and ever-expanding legislation in the domain of money, credit, and foreign trade.

Dealing in gold and foreign exchanges, purchasing abroad, the import or export of securities, remittances to foreign countries of any means of payment or of gold or savings books, the obtaining or granting by foreigners (i.e. persons resident abroad) of credits or guarantees, were prohibited, and any infringement of these regulations made subject to penalty. The regulations did not apply to the Bank Polski, and certain banks were empowered to act as *Devisen banks* or *Devisen agents* (banks or agents dealing in foreign bills of exchange). A special central body, the *Foreign Exchange Commission*, was set up, to control foreign exchange operations and supervise the activities of *Devisen banks* and *Devisen agents*. Exporters were obliged to offer immediately for purchase to the Bank Polski or the *Devisen Banks* any sums of money due from abroad in return for exports.

In the middle of June 1936 came a further drastic step, the suspension of cash transfers for the service of foreign loans; a very hard blow to public opinion, which attached great importance to maintaining absolute solvency in regard to foreign debts. Poland was one of the last debtor countries to follow the example of a temporary suspension of the debt service. The situation was greatly aggravated not only by the adverse balance of trade, but also by the recall of short-term credits, and finally by the default of foreign countries, especially Germany and other Central European countries, in the payment of their current commercial debts. The means of payment were henceforth deposited in zloty in blocked accounts of the Fiscal Agents with the Bank Polski. At the same time the Government sent a special mission headed by Professor Krzyżanowski to New York to initiate negotiations with the Fiscal Agents of the Polish Loans. This afterwards led to an agreement with the Fiscal Agents, resulting on February 24 1937, in the publication of new terms offered by the Polish Government and recommended for acceptance by the Foreign Bondholders' Protective Council in New York. The Council had declared the Polish offer to be "reasonable".

With the introduction of new exchange legislation a thorough tightening-up of control of foreign trade was also initiated. The Decree of May 7, 1936, introduced strict control over trade with foreign countries and with the Free City of Danzig, for Danzig, in spite of its customs union with Poland, had a separate monetary system, and from the standpoint of exchange legislation was treated as a foreign country. This was the source of many troubles and difficulties.

The import of goods into Poland was generally prohibited, all imports requiring a special licence granted by the Commission for Trade set up for this purpose and for the general control and

supervision of foreign trade. Exports were licensed to this extent, that all exporters had to notify the Commission for Trade in order to obtain a foreign exchange permit, a certificate which had to be presented to the Customs Office. These certificates were issued by the autonomous organizations of the branches of industry concerned.

On November 3, 1936, a further step for the control of foreign trade was undertaken, namely, the setting up of a Polish Clearing Institute in Warsaw. It assumed large powers of control, namely, the performance of all functions connected with the execution of clearing agreements and the carrying-out of all operations resulting from compensation transactions, and the exercise of a certain measure of control over foreign trade. The Institute began its activities on February 1, 1937. It was declared an institution under public law, but as a separate legal entity. Its President was nominated by the Minister of Industry and Trade in agreement with other Ministers. It had also a Council of Members nominated by the Government, the Bank Polski, and certain self-governing bodies.

The largest clearing agreement was signed with Germany by virtue of the Presidential Decree of August 1938. It was a trade as well as a clearing agreement, and came into effect on September 1, 1938.

The exchange legislation was continually amended and expanded, while controls were tightened up. On November 7, 1938, came the registration of Polish property held abroad. All persons considered as actually or legally resident in Poland had to register at the Bank Polski all their money, assets, and other property held abroad not later than December 10, 1938, and the holders were compelled to offer their properties for sale to the Bank Polski should it so request.

Amendments to the exchange legislation in November 1938 and January 20, 1939, brought new restrictions. No articles of gold, bars or articles of platinum, precious stones, or other jewellery might be exported without permission. The amount of means of payment which a traveller might take over the frontier was reduced to 100 złoty (roughly £4) per passport.

Control over internal trade was introduced by the Presidential Decree of February 22, 1938, and the Law of August 5, 1938. The Government was given large powers of control over trade in primary necessities. This phrase covered all articles which serve to supply the fundamental needs of the population and live-stock, i.e. foodstuffs, clothing, fuel, light, and articles of daily hygiene. The Government had the right to regulate the quality of milling and baking, the prices of cereals, meat and meat products, the retail prices of petrol and coal, and those of other necessities.

The Ministers concerned were empowered to issue regulations covering the storage and declaration of stocks of primary necessities,

the obligatory disclosure of prices by all shops and marketing enterprises, the duty of preparing and keeping records of all wholesale and semi-wholesale transactions, etc.

Wide powers of control over agricultural activities were granted to the Minister of Agriculture and Agrarian Reforms. The Law of August 5, 1938, imposed a tax on rye, wheat, and barley flour and on wheat and barley grain, whether domestic or foreign. The proceeds of this tax were to be used to maintain agricultural prices at a stable and remunerative level. Flour and groats for export abroad (or to Danzig) were free from tax. The rate was fixed at 3 zloty per 100 kg. of flour or grain. It was to be collected whenever the average quotation for rye on the Warsaw Grain Exchange during a period of twenty consecutive days and the average price of the three last days of that period was less than 20 zloty per 100 kg. Indirectly it was a price guarantee of 20 zloty for rye.

The structure of the tax resembled in several ways the scheme of the Agricultural Adjustment Act worked out by the Roosevelt Administration in the U.S.A. and known under the name of the "Triple A". The experiment, however, lasted for a much shorter time than the A.A.A., as one year later came the Nazi invasion and the results could not be clearly visualised.

The new investment programme embraced not only large-scale public works and State industrial undertakings, but also a stimulation of private investments. The Law of April 9, 1938, granted a number of privileges, tax deductions and exemptions, and other facilities for all investments in the so-called Central Industrial Area and the Eastern Provinces, and anywhere on Polish territory for special investments, such as housing, oil refineries, aircraft industries, railways and garages, etc. Purchasers of motor vehicles and aircraft were also granted exemption from tax. Privileges granted to capital enterprises in the Central Industrial Area comprised among others the right to deduct from taxable income over a period of ten years the costs of purchase of land, equipment of buildings and plant and a fifteen-year exemption from real estate tax, exemption from certain stamp duties etc.

The new investment programme required steadily increasing financial means for its execution. The issue of Treasury bills was growing; as was also the indebtedness of State undertakings, Fiscal Monopolies, and Public Funds. The National Defence and the Labour Funds assumed an ever-growing importance. The launching of National Loans became a frequent occurrence.

The new situation also required an adjustment in the statutes of the Bank Polski to meet the ever-increasing financial requirements, and those statutes were substantially altered on March 24, 1939.

17. PLANNING FOR THE INDUSTRIALIZATION OF CENTRAL POLAND.¹

POLAND's experiment in planning was short. It began in the middle of 1936, and was interrupted in September 1939 by the Nazi invasion. It was then in its early preliminary stage, and was a kind of middle path between Central and Regional Planning.

It has some analogies with the Tennessee Valley Authority in that it also attempted the speedy development of a backward area through a system of large-scale public works. But while in the case of the Tennessee Valley Authority the main emphasis was laid on flood control, navigation, power supply, protection of top-soil, and the development of agriculture, in Poland it was laid on the speedy building of munitions factories, huge engineering works, and heavy industries, while [power supply, flood control, navigation, and the development of transport and agriculture played a secondary rôle.

But the main difference between the Polish scheme and the Tennessee Valley Authority lay in the fact that the latter was in principle an independent scheme for regional development as an object complete in itself, while the Polish scheme was an attempt at comprehensive industrialization of the country as a whole with a location of its industry in a given region. The regional development was not a primary objective in itself, but was part of a very ambitious and huge scheme of wholesale reconstruction and transformation of Poland's economic structure.

There were many reasons for the decision that newly-erected industries should be located in a special region. The easiest way to secure this was, of course, to locate new factories in old industrial centres, a course which would yield large internal and external economies. But from the point of view of defence the old centres were in a vulnerable area, that is to say, they were too close to the western frontiers; a great disadvantage for the heavy armament industries. Finally, those centres had been developed within the framework of the Partition Powers, Germany, Austria, or Tsarist Russia, and their localization reflected an old politico-economic structure, old links with supply areas and markets from which they had been already cut off.

The choice of a new and relatively concentrated area for the erection of a new Industrial Centre, which has been named the Industrial Central District (C.O.P.), was from many points of view fortunate. The planning of an entire region hitherto almost empty from the point of view of industry and communication might yield many

¹ The working of this scheme has been already described in my book, *The Planning of Free Societies*, Secker & Warburg, 1943.

external economies. It was the opening-up of a whole area based on a planned network of new communications by rail, road, and water, and a grid for the supply of electric power and gas.

The area selected was round the confluence of the Vistula and the San, and covered 60,000 square kilometres, with a population of about $5\frac{1}{2}$ millions, between $\frac{1}{3}$ th and $\frac{1}{4}$ th of the area and population of the whole country. The main towns in the Industrial Central District were Radom, Kielce, Lublin, Zamość, Sandomierz, Rzeszów, and Tarnów. It included the major part of the triangle between Warsaw, Cracow, and Lwów.

It was the most poverty-stricken area in Poland after the Eastern Marches. The rural population was extremely dense, and the peasants lived in great misery. The average density of the rural population (85 persons per square km.) was 25 units above the national average, which was already extremely high compared with other European countries. Dwarf holdings (below 2 hectares) constituted 60 per cent. of all farms in the area, and those below 5 hectares 80 per cent. The proportion of the non-rural to the whole population in the district was 17.3 per cent., while it was 28 per cent. for the whole country.

The rural overpopulation of this area, when compared with a reasonable farm system on a western European model, was estimated at about 400,000 men. The district provided a large supply of surplus peasant labour for the country and for emigration, and the complete stoppage of migration caused by the adoption of small quotas in overseas countries was a great blow at the standard of living in the district.

The district itself had once been a centre of handicrafts and commerce before the Partition, but afterwards was completely neglected by the Partition Powers. The distressed area was created mainly by lack of communications. In spite of the fact that a central area is supposed to be a natural highway and cross-road, this area was completely deprived of communications. The Vistula was divided into three parts, and no one took any interest in its regulation and navigability; Tsarist Russia was especially hostile to its being navigable. The roads across the three frontiers were very often not connected. The railways ran parallel to the old frontiers as already mentioned.

The Industrial Central District had many other economic advantages besides cheap labour and its central position. The use of the Vistula, after the regulation of its course, would provide cheap transport. It was situated near large deposits of fuel, oil, and natural gas, and large reserves of electric power. It had various raw materials, such as low-grade iron, copper, pyrites, phosphorus, gypsum, lime, dolomite, marble, and clay, although up to that time they had been exploited not at all or only on a small scale.

The new industrial and transport equipment of this area was an attempt:

- (1) to industrialize the country as a whole;
- (2) to equip it with an armament industry, of which kind nothing had existed during the Partition, as the three Powers had no intention of locating their munitions industries in Poland;
- (3) to link up the various parts of Poland by means of highways and railways, suitable for the needs of the new National Unit;
- (4) to regulate the course of the Vistula and carry out a vast programme of electrification;
- (5) to provide in the Industrial Central District a large market for agricultural products and for the surplus labour of the Eastern Provinces.

Thus the regional programme was in reality an instrument of planning for the industrialization and economic development of Poland as a whole.

The tasks allocated by the programme were enormous. The first three years were to constitute only the beginning of a further even more ambitious and courageous scheme. As M. E. Kwiatkowski, Vice-Premier and Minister of Finance, author and promoter of the Plan, pointed out in a speech on December 2, 1938, the first period was only a starting-point for a long-range and large-scale fifteen-year plan, divided into three five-year periods, covering the years 1939-54. To each of these periods special tasks would be allocated.

He estimated that at the end of this fifteen-year plan the economic structure of Poland would be completely transformed, and that the country would be deprived of the old divisions between the three occupation areas, linked together by communications, and satisfactorily industrialized.

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The first period, which covered two and a half years, showed remarkable achievements.

A highly important pipe-line for the transport of natural gas was under construction, and important sections of it were already in use. The biggest reservoir in Poland, at Rożnów on the Dunajec, was completed at the beginning of 1939, with a second compensatory reservoir at Czchów. The electricity generated in these establishments was to be used in the Industrial Centre District. Large transmission lines from Mościce to Starachowice, Rzeszów, and Warsaw were under construction, and in part completed. The Radom-Kielce road was complete, and that from Kielce to Tarnów under construction. The Government started work on the regulation of the course of the Vistula. Railway lines to shorten the lines of communication between Warsaw and Cracow and Warsaw and Lwów were constructed.

The industrialization of the district was carried out in part by the Government, which erected large-scale State plants, and in part by private enterprise, which was granted special tax exemptions, credits, and privileges. Attracted by these inducements, many firms transferred their businesses to the area. Some plants were built as mixed enterprises, owned partly by the Government or other State enterprises and partly by private owners.

The largest and most modern war plant, the State Steel Works, was completed at a cost of over 100 million złoty (roughly 4 million pounds) at Stalowa Wola. A State aircraft factory was completed at Rzeszów, at a cost of 30 million złoty, and another at Mielec at a cost of 15 million. Large State munition factories costing 85 million złoty were constructed at Kraśnik, and the plants at Starachowice were greatly enlarged. A State aluminium foundry was under construction.

The private, or rather "mixed", firms had set up many plants, such as motor works, synthetic rubber factories, tyre factories, canning establishments, engineering works, porcelain, metallurgical and chemical works, etc.

It was estimated that the large industrial undertakings completed in the first period would give employment to at least 55,000 workers, and with all the other small and medium-sized undertakings and services to at least 90,000 workers, which is a considerable number compared with the total number of Polish workers (some 800,000 in all Polish industries—mining, smelting, and manufacturing). Steps were taken to start training camps and schools for training the people in these areas. Altogether the index of the industrial production of the whole country (1928=100) rose from 94 to 125·8 in the period from 1936 to May 1939.

The chief problem, one which always faces an industrially undeveloped country, was how to find the financial means for carrying out so vast a programme.

The whole investment programme of the Polish Government for the district and for the rest of the country amounted to about 800 million złoty in 1937 and about 1,000 million in 1938.¹ In 1937 the Government investment programme for the whole country amounted to 27·5 per cent. of the total budget expenditure, already very high in relation to the national income. The Government expenditure for 1937 amounted to 2,900 million złoty and probably more, and it was estimated that it had absorbed already, roughly speaking, 20 per cent. of the whole national income. But the national income per head of the population was very low, covering just the minimum of subsistence, and did not, therefore, provide for any great degree of real savings. The total net savings of the country did not cover the expenditure necessary for carrying out the plan in the first year, not

¹ It is difficult to estimate how much of this sum was swallowed up by the plan for the Industrial Central District.

to speak of its future phases, when the expenditure would rise at a higher rate.

The expenditure of the first period was mostly covered:

- (1) by mobilizing all available idle resources accumulated in public and private banks and in private hands since the Great Depression, partly by the issue of Treasury Bills and promissory notes of the State enterprises;
- (2) by means of the National Defence Fund, which had accumulated reserves for rearmament, strengthened by the French loan of £12,600,000 granted in the autumn of 1936, and partly by internal loans of a semi-voluntary character;
- (3) by means of the Labour Fund, which financed public unemployment agencies, unemployment insurance, and public works for the unemployed.

We may say that the first period was partly financed by idle resources from the Great Depression, partly by foreign loans, and partly by the semi-voluntary savings campaign (long-term internal loans); but as time went on the emphasis was laid more and more on forced savings and note issues from the Central Bank. (The notes in circulation rose from 1,158 million zloty in April 1936 to 1,841 million zloty in May 1939.) The Government was aware that a wholesale central control of the national economy was needed to carry out the plan, and it started to transform it on a more or less planned model.

As has been stated above, foreign exchange control was introduced in April 1936. Foreign trade was more and more put on a basis of quotas and clearings, of which the most important was the Polish-German Agreement of February 1937, providing for a balanced trade at 176 million zloty a year (machinery in return for butter and pigs). A Polish Clearing Institute was created in November 1938.

Prices and wages were increasingly subjected to Government control. In spite of great monetary expenditure and increase of economic activity prices remained unchanged during the whole period (the index of wholesale prices of industrial commodities rose from 539 in June 1936 to 549 in January 1939; 1928=100); the cost of living was unchanged (607 to 606); only the nominal wages of industrial workers rose from 806 to 861 (some rates, especially in mining, which were previously very low, had been adjusted).

The whole of Polish industry, highly organized in cartels and State and mixed enterprises, was more and more commandeered by orders imposing quotas of production and export.

All financial institutions, such as banks, insurance companies, savings banks, and communal banks came more and more under Government control in order to safeguard available savings for the public investment programme.

Restrictions on the distribution of profits and salaries in joint-stock companies had been in operation in many ways.

Polish economy was on its way to transformation into a planned economy when this process was interrupted in September 1939, and a new and ruthless planned economy of exploitation and extermination was imposed by foreign invaders.

The real difficulties facing planned industrialization of the autarkic type in Poland were:

The low level of real wages;

the high percentage of industrial raw materials which had to be imported from abroad;

the high percentage of machinery which had to be imported, although in the last year the development of the Polish engineering industry had been very considerable.

There was some lack of skilled labour, but this factor did not impose great limitations on industrial development, especially as training camps and schools were put into operation in increasing numbers.

The most limiting factor was the lack of certain industrial raw materials which had to be imported from abroad. This was the more difficult inasmuch as the industrial programme had contributed to the lack of export surpluses in many branches of the national economy, in industry as well as in agriculture.

Out of many raw materials required for industry Poland had its manganese, nickel, copper, tin, aluminium, rubber, and cotton. Wool was available only in small quantities, and only low-grade iron ore was to be had.

Half the Polish imports consisted of industrial raw materials, and this fact, added to the machinery and capital equipment required, imposed a great strain on the Polish balance of trade, which was nearly equivalent to the balance of payments, apart from the burden of foreign indebtedness.

As the process of industrialization proceeded, the problem of foreign raw materials and machinery became more aggravated, and had to be solved by a substantial curtailment of every kind of consumption through enforced saving.

18. PIŁSUDSKISM WITHOUT PIŁSUDSKI

WE NOW turn to the last phase of political development before the fateful September of 1939. The political scene became darker and gloomier, and the actors fewer. But on the economic plane some positive achievements and better prospects can be noted.

The political arena was emptying after the dissolution of the Government bloc. Until then there had been some degree of political movement and some legal opposition, as also in the fourth Sejm, but in the fifth and sixth Sejms political life became completely paralyzed or rather went underground.

The heritage of Piłsudski was taken over by two successors, of whom one was President Mościcki, with civil powers, the other the Inspector-General, Marshal Rydz-Smigły, with military powers. In actual fact three centres of power emerged, the third being under the control of Colonel Beck, the Minister for Foreign Affairs, who was supposed to know all the secrets, rules, and wishes of the late Marshal Piłsudski in regard to foreign policy. But Colonel Beck's authority was much less than that of Mościcki and Rydz-Smigły.

The political movement of Piłsudskism which had always lacked a distinct social and political outlook, but was based on personal fidelity to and belief in the personal leadership of the Marshal, decayed rapidly when this basis was removed, and his personal following split up into two distinct and conflicting parts.

Mościcki, who was a somewhat unorganic part in the Piłsudski's movement, wanted to return to a more representative form of Government and break the power of the Colonels, who threatened his authority and demanded his resignation. But his position was rather weak, without means to real power.

Rydz-Smigły had great ambitions, which evidently surpassed his abilities, and he manœuvred in the direction of a personal authoritative régime.

In the first year (1935-6) it seemed as if Mościcki had gained a certain advantage over Rydz-Smigły. The first cabinet appointed by him (October 13, 1935-May 15, 1936), led by Kościalkowski, resembled to a certain extent the Bartel cabinets in Piłsudski's period of power. This cabinet was the President's cabinet, and his personal friend and old collaborator, E. Kwiatkowski, became Minister of Finance and Vice-Premier. The cabinet met with strong opposition both in the country, as weak and undecided and without authority or real power, and, curiously enough, in the House itself, which was hostile to the President and was controlled by Slawek and the Colonels. It was also opposed by Rydz-Smigły.

Political and social unrest grew enormously during this period. Many strikes and revolts of peasants and workers took place. In Cracow there was once more bloodshed with many casualties during the attempts of Switalski, then Provincial Governor of Cracow, to break the "sit-down strikes". Another grave strike took place at Częstochowa, with many casualties. Serious rioting took place in Lwów on April 19, 1936, in which some were killed and many wounded.

The distress of the peasants led to strikes and revolts of major

significance among them, especially in Central Poland, the centre of the Populist party and the most distressed area.

Under the influence of Nazi Germany, combined with the general distress, the anti-Semitic agitation grew dangerously and undermined the position of trade and finance, leading to open clashes and law-breaking. A new and well-organized movement, the Radical Nationalism of youth, applying methods of direct action, came to the fore.

Under these circumstances the Kościalkowski Cabinet collapsed, and we enter on the last period (1936-9) of compromise between Mościcki and Rydz-Smigły with a trend towards a certain degree of supremacy for the latter. They agreed to form a common cabinet in which everyone would have men in his confidence as his own representatives. The chief of the President's group in this cabinet was the Minister of Finance, E. Kwiatkowski, the new economic leader of Poland, the builder of Gdynia and of a great chemical plant in Mościce. He had the engineer's mind, regarding the national economy from the technical point of view only, and was impatient to start on great industrial schemes and public works. He was a great believer in technocratic planning, and his views came very near to the ideas which inspired President Roosevelt in the New Deal. Economic policy was placed entirely in the hands of Mościcki and Kwiatkowski.

Their policy came increasingly into personal as well as economic conflict with the old Piłsudski guard in the economic domain, led by Colonels Matuszewski, Koc, and Lechnicki, who stuck to the old defensive policy of wholesale deflation and the outmoded gold standard. The old guard was removed from all key positions. Colonel Koc left the office of Secretary of State in the Treasury and afterwards the Bank Polski. Matuszewski left the leading Government newspaper, the *Gazeta Polska*. Lechnicki likewise was dismissed from the Secretaryship of the Economic Committee of Ministers.

The rupture became an open one in April 1936, when the new exchange legislation was introduced. From that time onwards the economic policy became bolder and more courageous, not entirely centred on the monetary question, but with a wider vision embracing investments as well. After all, an active policy also became more and more of a necessity, brought about by the growing political as well as social unrest in the country.

The chief representative of Rydz-Smigły's group in the Cabinet was the Premier himself, General Składkowski, a former physician and a very simple-minded man, not very well suited for the task of Government which had been committed to him. He formed his Cabinet on May 15, 1936, being regarded as in office only provisionally, but he remained in power until the war.

He displayed a strong hand in keeping internal order, and was particularly interested in the cleansing of the towns and the introduction of better sanitation. Order was soon restored, since the Great

Depression was at an ebb, and Kwiatkowski had already started on his great programme of public works.

One of the first acts of Składkowski was to publish his famous circular (*Okólnik*) of July 16, 1938, signed by himself, but on the orders of the President. In this circular, issued to the Ministers and Provincial Governors, he declared the Marshal "first citizen of the country after the President", and asked the Ministers to "respect and obey the Marshal".

This was a complete breach of the new Constitution of 1935, by which the Ministers were made responsible not only to the President and the House but also to the Commander-in-Chief, who in this way was again entangled in politics, in contradiction to the principles proclaimed by Piłsudski.

In actual fact the "Second Person in the State" became more and more the first person. He tried to gain popularity, and to compromise with the peasants and young nationalists of the radical brand. He attempted to gather together a new camp of followers on the model of the dissolved Government bloc by creating the so-called Camp of National Unity (*Ozon*), at the head of which he placed Colonel Koc, who had been ousted from the economic domain by Kwiatkowski. On February 20, 1937, the latter issued a confused "ideological declaration" for the new Camp, the main points of which were strong nationalism with an anti-Semitic accent and a vague promise of social and economic reform.

The new Camp proved a total failure, but it only hastened the decay of Piłsudskism in the personal as well as in the ideological domain since Piłsudski strongly opposed the nationalistic movements headed by Dmowski, and the new "ideological declaration" was a complete triumph of Dmowski's ideas. The whole declaration gave the impression of being a cynical bargain to capture popularity with the people, playing whatever tunes were likely to be most popular. It promised to protect everybody's interests—peasants and landowners, workers and employers, artisans and small tradesmen. The declaration was full of promises, with a slogan of goodwill, solidarity, and unity: "Unite and march together".

As the Camp proved a failure, a new leader, General Skwarczyński, was installed, with the object of shifting a little more to the centre.

The "new Camp" met with strong opposition in the Sejm, which was composed of Piłsudski followers of the old brand controlled by Ślawek, and the fifth House was then dissolved in September 13, 1938. The elections for the sixth House brought a total defeat for the old Piłsudskites and for Ślawek himself. He had to taste his own medicine, and could prove by his own experience how fairly and justly the Electoral Acts worked out on himself. Shortly afterwards, on April 2, 1939, he took his life, writing just before:¹ "I have decided to take

¹ S. Mackiewicz, *History of Poland* (in Polish), London, 1941.

my life. May God pardon me my sins, including this last one", feeling doubtless that he had failed in the mission bequeathed to him by Marshal Pilsudski to give Poland a proper constitution and an enduring political structure.

The sixth House was entirely controlled by the "Camp of National Unity", but the House itself was deprived of authority and respect, even self-respect. In spite of its victory at the elections the popularity of the camp dwindled ever more and more.

So ended a grand and at the same time most dynamic movement which had endured for twenty years, in failure in the personal, social, and political spheres. It devoured itself, discarding its old discipline and contradicting its own ideas. The bag was empty.

The fundamental soundness and vigour of the Polish people is proved by the fact that, in spite of the decay of political leadership in the State in their hour of trial, they put up so magnificent a fight in the gallant defence of their homes and country at the time of the German invasion, a defence whose bravery was much more appreciated after Dunkirk, when the bulwarks of Belgium, Holland, and France were broken in a moment by the mechanized Nazi hordes.

A further and stronger proof of these qualities is the unflinching resistance which the Polish people are putting up against the aggressor. In the hour of trial was at once restored the national unity, and no Quisling has come forward from any party whatever to co-operate with the enemy.

What better foundation could there be for the future political revival of the independent Polish State?

PART III

ECONOMIC TRENDS AND DEVELOPMENTS

1. NATIONAL INCOME AND ITS DISTRIBUTION

As Professor Bowley once said: "Tendencies and movements can often be observed without exact measurements".¹ I have largely applied this device in this book, and have tried to use figures as little as possible. But it is difficult to gain any insight into the working of the national economy without a glance at the records of national income in its cross-sections and its changes during the Twenty Years, though the figures may be only rough estimates.

We have most exhaustive estimates of national income (defined as the sum-total of goods and services consumed and invested) made by the Polish Institute for Research into Business Cycles and Prices in Warsaw.

For the year 1929 the National Income was estimated altogether at 26,000 million zloty, equivalent to £885 million sterling at that time.² The distribution as between rural and urban consumption, Government services (embracing only education), and investment is presented by the following table (thousand million zloty):

| | | | | | |
|-----------------------------------|---|---|---|---|------|
| Urban consumption | . | . | . | . | 12.5 |
| Rural consumption | . | . | . | . | 11.0 |
| Government (educational) services | . | . | . | . | 0.4 |
| Investment | . | . | . | . | 2.1 |
| TOTAL | | | | | 26.0 |

The estimate is not complete, since it does not include all public services, restricting these to the educational services only.

In the rural consumption of 11,000 million zloty the value of their own produce retained by the farmers for their own consumption (assessed at retail prices) is estimated at 8,200 million. Thus the market consumption of farmers (embracing industrial as well as agricultural products) amounts altogether to 2,800 million zloty, about one-quarter of their total consumption.

The first characteristic feature in the distribution of income is that 64 per cent. of the whole population consumes 47 per cent. of the national income and 49 per cent. of the consumers' income.

The other most striking feature is that 64 per cent. of the population consumes through the market only 12 per cent. of general purchases of consumer's goods. This was the most important limitation to industrial development. This limitation will appear even greater when we take into consideration that of the 12,500 million zloty

¹ Arthur Bowley, *Some Economic Effects of the War*, 1930.

² See *Memorandum* by the Slavonic Department, Birmingham University.

estimated as representing urban consumption, 4,300 million zloty are spent on food.

Now let us see how the national income was distributed among different social classes in towns and villages. The following table gives us some guidance in this respect (figures in thousand million zloty):

| | |
|---|-------------|
| Salary earners | 2.5 |
| Wage earners (other than farm workers) | 4.3 |
| Farm workers | 1.6 |
| Small farmers (holding under 120 acres) | 8.7 |
| Independent workers and small employers | 3.5 |
| Large landowners | 0.7 |
| Persons in receipt of dividends and professional fees | 2.2 |
| Government services (education) | 0.4 |
| Income saved | 2.1 |
| TOTAL | 26.0 |

One characteristic feature is the small percentage of income going to wage-earners other than farm workers (about 16 per cent.), which is due to the low degree of industrialization. The share of independent workers and small employers in the national income did not fall much behind that of wage-earners.

Another interesting feature is the relatively large share of the salary-earners, who, together with those in receipt of dividends and professional fees (in Polish practice the industrialists very often received their profits in the form of managerial salaries) were in command of a greater share of the national income than the wage-earners.

Of income saved, 1,400 million zloty was due to the savings of public authorities, while the private sector in savings, owing to the low average level of income, was small. The savings were more or less enforced by public authorities in public spending.

The national income declined rapidly, even catastrophically, during the Great Depression, more sharply, of course, in terms of money and less so in terms of goods.

During the four years 1929-33, in terms of money, the decline was one-half, being estimated at 13,300 million zloty; and in real terms (at 1929 prices) by one-fourth, being estimated at 19.5 million zloty. After that period it recovered slowly, being estimated in 1937 (at 1929 prices) at 23,400 million zloty. In 1939, taking the standard of the first half-year as basis for the whole, the national income in real terms was again more or less at the same level as in 1929. But as the population had increased since 1929, this would mean a fall of national income per head of the population.

Somewhat different and more favourable are the estimates made by Colin Clark,¹ according to which real income in International

¹ *The Economics of 1960.*

Units (dollars in prices 1925-34) per head of population in Poland had changed very little, as follows:

| 1909-13 | 1921-4 | 1925-9 | 1930-4 | 1935-9 |
|----------------------------|--------|--------|--------|--------|
| 117 | 84 | 117 | 117 | 117 |
| <i>and per breadwinner</i> | | | | |
| 350 | 250 | 350 | 350 | 350 |

Compared with other countries' real income per head in International Units, Poland's position was exactly the same as that of the Baltic States (117 I. U.), but better than that of the U.S.S.R. (108) or the Balkans (102). It was worse than that of Italy (158) and Czechoslovakia (161); compared with Great Britain and Northern Ireland (584) it was more or less one-fifth.

The smallness of the national dividend (per head) was a factor curbing the National Expenditure, since the free income, i.e. the income left after covering the necessities of life, was rather slender.

2. INDUSTRIAL DEVELOPMENT

POLISH industry has undergone many structural changes. Some of these were the outcome of the new frontiers, others resulted from new technical development. The factors restricting industrialization were:

- (1) The complete loss of a huge Eastern market, not so much owing to the new frontiers as to the closed Soviet planned economy which transformed the frontier into a firm barrier.
- (2) The contraction of old traditional industries, a phenomenon general in many industrial countries awakening to new technical development.
- (3) A very small internal market, substantially diminished by the destruction of war and the general impoverishment of the rural population, cut off from the world agricultural markets which were increasingly closed to them.
- (4) Lack of investment funds, whereas the new technical development required a great outlay of capital.
- (5) Cartel agreements, both internal and international, as well as foreign monopolies in patents and privileges.

Let us now review some of these factors.

The first factor was a great blow, especially to the great textile industry at Łódź, which during the first period underwent a substantial contraction, though it soon recovered. Some branches of the metallurgical industry, which worked for the Eastern market, shared the same fate; for instance, the production of water-pumps (Rohn-Zieliński i Ska), of steam engines (August Rebhan), of apparatus for beet-

sugar manufacture (Bohrman Ska Akc), of boilers (N. Fitzner i K. Gamper in Sosnowiec or Rudzki i Ska near Warsaw), of constructional work (steel bridges, etc., for the Siberian railways, undertaken by Orthwein and Karasiński in Warsaw); all these suffered substantial reduction. Many factories producing agricultural machinery and implements of the simplest varieties, plants for weighing machines and weighbridges in Lublin, had to be closed.

Some traditional industries also diminished in volume owing to technical changes likewise. This was the case with the beet-sugar industry, once of great importance in Polish economy, and the alcohol industry, which played a great part in the revenue of the great estates and in the employment of agricultural workers, the production dwindling to one-fourth of the pre-war level.

Everywhere throughout the world, coal-mining, which played a prominent part in Polish industry, was in a state of stagnation and was classified as a contracting industry. In 1936 both employment and output in Polish coal-mines were below the 1913 level. Output had its best year in 1929, when it was 10 per cent. higher than in 1913, but thereafter it continued below pre-war level, with the exception of the year 1939 (first half).

Petroleum production greatly decreased owing to the exhaustion of the wells in Drohobycz.

Even in their best years, 1928 and 1929, the iron foundries were working below their pre-war level, which was not regained until 1939, when the war industries were brought up to full production. In regard to steel production the military authorities prohibited the publication of the complete figures.

The limited extent of the internal market was a primary check to new industries which in industrial countries made great strides, especially the motor-car industry. The first attempts to develop this industry, at the cost of great sacrifices (high tariffs and market privileges), were made as early as 1924-5, when the firm of Ursus was taken over by the State, and afterwards when a deal was made with the Italian firm of Fiat. But they failed owing to the lack of effective demand, the outcome of the low standard of living, and also as a result of a mistaken customs policy of a restrictive nature which proved an obstacle to the development of the demand (by not supplying cheap motor-cars), and partly also owing to inadequate investment in road-building.

The position in the motor-car industry, which caused much annoyance amongst the general public in Poland, became a vicious circle. The high tariff on motor-cars and the bargaining privileges granted to home production resulted in high prices for these vehicles, and this led to further shrinkage of the internal market. The small amount of traffic gave rise to high costs for the maintenance and repair of cars. Thus smallness of market and restricted traffic were great obstacles

in the way of genuine investment in the industry. During the last years of the period under review, the Government embarked upon a policy of extending the market by granting bounties to car buyers and by cheapening the cost of car maintenance, as well as by large investments in road-making, so that as a result a new avenue for capital investment was opened up. Apart from the motor-car engines produced by the State engineering works at Warsaw and Czechowice (Ursus), a new plant was built in Lublin by Lilpop; this plant, however, was not complete when the war started, though it was nearly ready. Motor-car bodies were produced in ever-increasing numbers.

In many branches of industry cartel agreements were a substantial obstacle to industrial development. A very striking example was provided by the cement industry, which, after the dissolution of the cartel in March 1930, raised its output sharply by adjusting prices to the new market conditions by a decrease of 30 per cent. Many of the factories which had been idle resumed work in spite of the closing season.

The burden of foreign monopolies can be seen most clearly in the case of the match industry administered by the Kreuger Company, by comparing the number of plants in operation, workers, and production in 1929 and 1937. In the former year there were ten plants employing 2,685 workpeople with a production of 28,306 million matches, while in 1937 there were four plants in operation with 818 workers, producing only 15,014 million matches.

But in spite of all these difficulties and setbacks the body of Polish industry, as a whole, constantly grew and developed. There was much technical improvement and rationalization, and specialization progressed still further. New industries were opened up, while the production in old industries underwent constant improvement from the point of view of quality.

The munitions industry, which had been entirely absent in Poland, was developed to considerable dimensions. New undertakings were started for the production of machine tools and tools in general. The chemical industry expanded into many new forms. Shipyards were established. The food industry embarked upon new branches of production. We will quote some examples of this development.

Two plants for the manufacture of aircraft engines were opened in Warsaw and one in Rzeszów just before the Second World War; several factories for the production of aeroplanes were set up (at Poznań, Lublin, Biała Podlaska, and near Warsaw); as were also a new plant for the production of locomotives at Chrzanów, and another for the manufacture of cranes and harbour machinery.

Four new shipyards were built, two at Gdynia, one at Pińsk, another at Modlin. Just before the war two destroyers were under construction in the shipyards at Gdynia.

New factories for the production of machine tools and tools in general were founded by Cegielski at Rzeszów in 1938, by Zieleniewski at Dąbrowa Górnicza, by W. Paschalski at Warsaw, by Pionier, by Wiepofana at Poznań, by Waldemar at Pabianice, and by Krusze at Łódź. These factories, among other things, produced anti-aircraft and anti-tank guns, some of which went to England before the war. Machinery for road construction was made by Huta Zgoda, Cegielski, and locomotives at the works at Chrzanów. Several factories for tin-making and metal packing were set up, as well as a new cable industry at Cracow, Poznań, and Warsaw.

In foodstuffs a new bacon industry grew rapidly. Rice refining plants, new cold storage depots at Gdynia, Łódź, and Warsaw, as well as warehouses and silos, were built.

Perhaps the most impressive development was the rapid expansion of the chemical and drug industry. The old fertilizer plant at Chorzów (Upper Silesia) was greatly extended, and a gigantic new plant for fertilizers and explosives was built near Chrzanów, the new factory and the surrounding locality being named after President Mościcki. New plants at Zgierz, near Łódź, and Pionki near Dęblin produced dyes and coal-tar by-products. Explosives were made by the State armaments workshops.

At Tomaszów and Myszków new rayon factories sprang up. Besides the plants for rubber tyres, a new factory for synthetic rubber was erected in Dębica. Municipal gas works and the manufacture of coke-burning stoves created a new industry in many towns.

Among new industries we may also mention the optical and radio industries, which during the last years exported a fairly large proportion of their output. Other expanding industries were: paper, especially wood pulp and cellulose; timber, producing parquet slabs and other flooring, bentwood furniture and coopers' wares; the electro-technical industry, specializing in radio and electric light bulbs; porcelain and crockery canning; leather products and the manufacture of nails and wire.

In mining, a completely new industry, the production of potassium salts, grew rapidly, and the extraction of natural gas greatly expanded.

In the textile industry the production of yarn lagged somewhat behind, but that of fabrics and ready-made clothes was growing, as was also the output of carpets and knitted and ready-made articles such as hats, hoods, gloves, stockings, socks, linings, laces, etc.

The building industry did not develop on a large scale, but some of the industries producing materials connected with building activities, especially brick and clinker factories, fire-clay brick factories, and the cement industry showed a considerable revival after 1933.

Industrial development was mostly concentrated into two periods, 1925-9 and 1936-9. The first period followed the Polish-German tariff war and displayed a strong movement towards technical progress.

Technical rationalization increased with rapid strides, even under the pressure of the Great Depression. The period from 1936 to 1939 was marked by the building of the New Industrial Centre already described.

The main characteristic of Polish industry was that it was to a large extent dependent on the export market. This was particularly the case with the old industries built up and developed within the framework of the large Empires where they had previously done business, while the new industries so far developed in the new Poland were mainly dependent on the domestic market. The new industries were completely adjusted to the new conditions, while the old ones were compelled to undergo very far-reaching structural changes, as regards both quantity and quality.

3. CONSTRUCTION OF THE PORT OF GDYNIA

THE plan for building a harbour was drafted as early as 1920, but more practical steps were taken in 1923. During the first three years, however, very little was achieved, mainly because of lack of capital. Only a provisional harbour, about seven metres deep, with railway sidings, was completed. In 1924 the construction of the port was entrusted to a Franco-Polish combine, which was granted a short-term loan for this purpose, to be repaid by 1935. In 1926 a new contract was signed, and the pace of construction was accelerated owing to the Polish-German Customs war and the stronger financial position of the Polish Government after the Stabilization Loan. The first part of the work, comprising one outer and one inner basin, was completed in 1929, and from that time onwards construction progressed at a rapid rate. Electric power for the port was provided by the power-stations at Gródek and Rutki.

The new port was linked by the Bydgoszcz-Gdynia railway and the Inowrocław-Herby line, and afterwards with Upper Silesia, the lines being altogether some 552 km. in length.

The new railways became a powerful link between the centre of Polish industry in Upper Silesia and Pomerania and contributed greatly to the economic unification of Poland; the export drive to the Polish sea, and the development of Polish-Scandinavian trade. The concession for the construction of the new railway was granted in 1931 to a Polish-French Company, the *Société Anonyme Compagnie Franco-Polonaise de Chemins-de-Fer de Paris*, founded especially for this purpose, in which Schneider-Creusot were mainly interested. The loan was small in amount, and much work had already been done by the Polish Government, but it had also a political significance as a fresh indication of Polish-French collaboration.

An economic revival followed in the whole of Pomerania. A considerable degree of industrialization of the neighbouring areas

took place. Warehouses, cold storage plants and grain elevators, refrigerators, factories and mills were built by private or mixed enterprise mostly on the basis of long-term concessions, and taking advantage of tax-exemptions. A small modern merchant navy was built.

Before the First World War the two small villages of Gdynia and Oksywie, within whose area the port was constructed, had about 200 inhabitants in all. The population of the port increased rapidly, as shipping agencies, brokers' institutions, banks, hotels, a stock exchange, stores, and warehouses were established in its neighbourhood. In 1921 the population numbered 1,300; in 1928 it rose to 15,000; in 1931 to 38,000; in 1936 to 84,000, and in 1939 to 120,000.

The total investments effected by the Government amounted at the end of 1936 to about 260 million zloty, without taking into account indirect investments, and various bounties and premiums, e.g. special freight rates and tax exemptions for investments in connection with the construction of the port. The investments of private firms in warehouses and installations were estimated at 50 million zloty. The public investments were financed mainly by medium-term promissory notes of the Polish Treasury issued to various contractors.

The port proved a great success. Even in 1931 Gdynia took sixth place among the twelve Baltic ports. It very soon outstripped some of the biggest ports in the Baltic; in 1938 it was the first port in the Baltic in regard to mercantile marine traffic. In million N.R.T. the yearly turnover of Gdynia was 6.5, of Danzig 4.8, of Stockholm 3.9, of Stettin 3.4.

From the year 1932 onwards Gdynia to a great extent, outstripped Danzig, but a certain division of function took place between the two ports, especially after the signing of the Poland-Danzig agreement of August 5, 1933, which regulated the use of the port of Danzig. The agreement guaranteed to Danzig a minimum goods traffic of about 4.4 million tons, and reserved to that town the transit of goods to which the Danzig port facilities were especially suited, such as grain, timber, crude oil, artificial fertilizers, zinc, salted herrings and so on. Sugar, cotton, iron ore, rice, fresh herrings were directed to Gdynia.

Gdynia was mainly an export port, imports playing a smaller rôle. The proportion of exports to imports in goods traffic in tonnage in 1937 was: Gdynia, 7.2: 1.7; Danzig, 5.6: 1.5.

Gdynia was first of all a coaling port; its export of coal amounted in 1937 to nearly twice that of Danzig. Of 7.2 million tons of exports, 6.4 million consisted of coal and coke.

Gdynia's timber traffic was no more than one-fourth that of Danzig. After the opening of the cold-storage plant at Gdynia the export of eggs, butter, and bacon was carried on almost exclusively through that port.

The share of overseas traffic in Poland's foreign trade was likewise

rapidly growing. From 1936 onwards it already attained 77 per cent. by weight and 65.3 per cent. in terms of value.

We see how vitally important access to the sea had become. In 1937 81.8 per cent. by tonnage of all Polish exports and 61.7 per cent. of all her imports went by sea.

Both ports profited from this development; perhaps not in equal measure, but Danzig's share was large. In 1937 34.1 per cent. of the tonnage of Polish exports and 21.7 per cent. of imports went through Danzig, Gdynia's share being 47.7 per cent. and 40.0 per cent. respectively. We thus see how vitally important a function Danzig played in Poland's foreign trade.

The shipping traffic of Danzig rose in thousands of registered tons net from 925 in 1913 to 4,043 in 1928. Owing to the Great Depression it fell afterwards to 2,750, but rose again to 4,026 in 1937. The goods traffic in imports and exports rose in thousands of tons from 2,112 in 1913 to 7,201 in 1937.

Gdynia also became an important port for transit traffic, especially for outgoing shipments of Czechoslovak wood-pulp, Finnish paper, Czechoslovak shoes, and for the incoming shipments of iron ore to Czechoslovakia.

The transit traffic was favoured by the creation of a customs-free zone in Gdynia in July 1933. The zone was legally considered as foreign territory, and the movement of ships and the loading and unloading of goods within the zone were free from all Customs formalities.

Gdynia developed direct communication with nearly all the most important seaports in the world. In 1935 there were already fifty regular steamship lines, of which several were under exclusively Polish management.

The Polish people regarded Gdynia as a symbol of their drive towards the sea, a proof of their economic efficiency and dynamic force, and a basic instrument of their economic independence.

4. ELECTRIFICATION

NATURAL conditions for the production of electric power in Poland are extremely favourable. Poland has great water-power resources,¹ whose gross capacity is estimated in thousands of kw. at 100 per cent. efficiency at 2,700 (at arithmetical mean flow); their utilization, however, was but insignificant, being estimated at only 7.4 (developed sites² with water-wheel installations of 1,000 kw. or more).

The magnitude of Poland's water-power resources can best be compared with that of Germany in 1934. The relative figures for

¹ *Statistical Year Book of the World Power Conference*, London, 1938.

² Sites being defined as definite sections of a stream which are developed or are capable of being developed for the production of water-power.

Germany (excluding the Saar) are, in the same units, 3,723, of which 1,260 were being actually utilized.

Apart from water-power resources, there are in Poland other conditions which conduce to electrification, such as large deposits of coal and oil, and some deposits of lignite and peat.

The use of electricity was, however, scarcely developed, some large districts and smaller towns being entirely without electric current; 17 per cent. of the total town population had no electricity service.

Of the whole population, estimated in 1935 at 33·8 millions, the areas supplied with electricity included 12·5 millions, while for France the respective figures were 41·8 and 40·6 millions, for Czechoslovakia 15·3 and 11·14 millions, for Switzerland 4·1 and 4 millions.

In 1935 Poland consumed 1,491 millions of kilowatt-hours, while in the same year Germany consumed 18,726, France 9,425, and Czechoslovakia 1,344. In Poland the consumption of electricity for agricultural purposes was practically nil.

Public opinion thoroughly understood the great importance of electricity for the furtherance of economic progress, especially as a cost-reducing factor and one which would afford immense assistance to small workshops in their competition with large-scale factories. The problem was always being prominently discussed in technical reviews and even in the daily papers.

It was also of interest to foreign capital, especially in the City of London and in Wall Street. This interest, however, never materialized in a great influx of foreign capital for the development of electric power in Poland. The fresh influx was estimated by M. L. Wellisz¹ at about £3·75 millions, the greater portion of which came from Great Britain.

For the first years the concession terms in general were especially attractive. They were defined in the electricity Act of March 21, 1922, and afterwards in a resolution of the Economic Committee of the Cabinet in 1925. According to the last resolution a concession for a fuel electric-power plant might be granted for twenty-five to forty years and for a hydro-electric plant even up to sixty years. The power plants became the property of the State after the expiration of the concession upon refund of the unamortized part of the cost of installation during the last few years. Maximum rates and discounts were fixed in the Concession Act, and some degree of Government control safeguarded. The concessionaire was obliged to pay to the Treasury 1½ per cent. of his gross receipts as well as part of the profits exceeding a fixed net revenue.²

Two conflicting tendencies were at work in the Polish administration: one was to attract the maximum influx of foreign capital for electrification, the second, to safeguard full control over the utilization of exclusive rights and to avoid the dangers of their exploitation by foreign concerns, especially those influenced by German industry.

¹ *Foreign Capital in Poland.*

² Wellisz, *op. cit.*, p. 242.

In 1929 there was an interesting offer for the large-scale electrification of Poland, which aroused passionate disputes within the Cabinet and among the public. Messrs. W. A. Harriman & Co. of the U.S.A. had submitted to the Polish Government a detailed scheme for large-scale electrification of the country, offering to invest about 100 million dollars, of which 25 million would be granted during the first ten years and 1.5 million dollars yearly thereafter, and demanding the exclusive right of producing, transmitting, and selling electric current over a defined area of sixty-nine districts in the Provinces of Warsaw, Łódź, Kielce, Lublin, Cracow, and Lwów for the term of sixty years, and also far-reaching taxation privileges and exemptions. The offer included the construction of a hydro-electric power station on the Dunajec; the construction of large-scale fuel electric-power plant in the coalfield district working in conjunction with a hydro-electric power station; the construction of high-tension transmission and distribution lines to a length of 201 miles in the first and 468 miles in the second phase of the construction work; the electrification over a period of five years of all towns with more than 5,000 inhabitants and during the succeeding five years of those with a population of over 3,000.

The Polish Government considered the plan very carefully and afterwards acquired the scheme, reimbursing to its authors all expenses connected with its preparation. The plan itself, however, was rejected on the ground that the terms were of a monopolistic nature and too onerous when the period of sixty years, for which exclusive rights were asked, was taken into account.

Small parts of the plan were carried out by the Government during 1936-9 in South and Central Poland. The plan is worthy of very careful examination in any scheme for the post-war reconstruction of Poland.

Large facilities for investment in electric plants were granted by the decree of October 27, 1933. New premiums were offered, such as exemption from all direct State and local government taxation, and from duties such as purchase tax on real estate. But after the Great Depression only a very insignificant amount of foreign capital flowed into the country.

Let us now survey the actual progress achieved in the electrification of Poland. The degree of electrification before 1918 is not exactly known. The first reliable statistics of electrical plants were published for 1925.

The number of electric-power plants then amounted to 835 (excluding very small ones) and their annual output of current (in thousands of kwh.) to 1,800,000. The number of plants increased during the period up to 1929 to 864 and their output to 3,023,000.

The greatest development was concentrated mainly in the period

from 1925 to 1929 and after 1936. Taking the output¹ in thousands of kwh. in stations with an installed capacity of 1,000 kw., the level of 1929 (3,023,000) was not surpassed before 1937, being then 3,356,000 and in 1938, 3,709,000. The average yearly output in the period between 1929 and 1937 was below that achieved in 1929.

The electric supply undertakings were fuel-operated plants, the bulk of them steam plants, the total of internal combustion engines amounting to only 6 per cent. of the former. The capacities of the hydro-electric plants were quite insignificant (in 1929 1.2 per cent. of the aggregate output was provided by hydro-electric plants), and only after 1936 were some new hydro-electric plants built, mainly in Southern and Central Poland. (See chapter on the Industrialization of Central Poland.)

The overwhelming majority of the electric plants were small local plants.

From the point of view of geographical distribution in 1929² Silesia provided 55 per cent. of the total output.

5. FOREIGN TRADE

THE so-called active "trade balance" (excess of exports over imports), was a motto very popular with the public. Sometimes this was exaggerated into a "foreign trade balance complex". The enforcement of equilibrium in returns of imports and exports over short periods, not only for a given year, but even over single months, imposed a neo-mercantilistic imprint on the economic policy, impelling it to ever-increasing controls and restrictions. But this neo-mercantilistic policy was but a part of the neo-mercantilism adopted over the whole European continent and the result of the short supply of dollars.

The real justification for this policy was the extraordinary part played by foreign trade in the balance of payments. Poland was a debtor country, and one which desired to pay all her debts in full. This became increasingly difficult after the Great Depression, when the former influx of foreign capital gave place to the outflow of short-term credits. The surplus of exports was the chief item which might cover the surplus of outgoings in interest, rates of repayment, commissions, dividends and profits on foreign capital. The other sources of surplus in the balance of payments were:

(1) Emigrant remittances and the funds brought home by returning emigrants; this source, however, showed a steady tendency towards decline, the balance over sums exported by emigrants being (in million zloty) 209 in 1925 and 105 in 1935.

¹ *Statistical Year Book of the League of Nations*, 1937-8.

² *Power Sources in Poland and their Utilization*. Warsaw, 1931.

(2) The communication services (railway, sea, and postal) in which earnings on transit traffic played an important part; this item also, however, showed a tendency towards shrinkage, the balance being (in million zloty) 194 in 1929 and 53 in 1935, frozen to a great extent owing to Germany's unwillingness to pay.

Foreign trade in Poland was on a relatively small scale. In 1928 (a good year from this point of view) the turnover of foreign trade per head of population amounted in zloty to 192, while that of Czechoslovakia amounted to 737, Germany's to 841, France's to 892, the U.S.A.'s to 677. In 1937 the turnover per head in Poland (in zloty) was 71, while in Czechoslovakia it was 277, in Germany 358, in France 334, and in the U.S.A. 259. But apart from large differences in national income, the structure of Polish economy—to a large extent self-sufficient from the point of view of food and the needs of everyday life—has to be taken into account.

The percentage of Polish foreign trade¹ to world foreign trade grew steadily until 1929, then somewhat declined. It attained a level of 1 per cent. in 1929, then declined in 1932 to 0.8 per cent., then rose again reaching in 1938 the level of 1 per cent.

Foreign trade until 1924 was directed chiefly to Central Europe, mainly Germany, Austria, and Czechoslovakia. In 1924 43.2 per cent. of Polish exports went to Germany (whence came 34.5 per cent. of imports), 10.1 per cent. to Austria (imports 11.7 per cent.), and 7.9 per cent. to Czechoslovakia (imports 5.7 per cent.). Polish foreign trade was mainly continental. Polish exports went to the continent of Europe to the extent of 87.2 per cent. of her whole export total, or 97.7 per cent. if Great Britain be included.

From 1925 onwards Poland's exports to Central Europe rapidly declined while her overseas trade grew apace. Germany's share of Polish exports constantly fell, reaching the level of 14.5 in 1937. Austria's share fell at the same time to 4.9 per cent.; Czechoslovakia's to 4.3 per cent. The same trend also affected imports. The part played by Hungary and the Balkan States was insignificant and on the decline. A major part of foreign trade was diverted from Central Europe to the Northern and North-Western markets.

Trade with the Baltic countries, especially Sweden, assumed an ever-growing importance. This section of Polish exports rose from 3.8 per cent. in 1924 to 6.3 in 1937. Exports to Belgium rose from 1.7 to 5.8 per cent., and to Holland from 3.1 to 5.1, all showing an upward trend.

Overseas trade grew constantly, and new outlets were discovered and developed. Exports to the United Kingdom, which amounted to 10.5 per cent. of all Polish exports in 1924, rose to 18.3 per cent. in 1937; those to the U.S.A. from 0.6 to 8.4; to Asia from 0.9 to 4.3; to Africa from 0.1 to 2.2 per cent.

¹ Head Statistical Office. *Foreign Trade of the Polish Republic*, Warsaw. Current editions.

The part played by France seemed at the beginning to be important, and great hopes were placed on the development of Franco-Polish relations. Poland granted considerable facilities, amounting even to privileges, to France in the first trade agreements, but the position of France in Polish trade became stagnant; later it improved again in connection with the Defence Loan granted by the French to the Polish Government in 1936.

Italy played a slightly greater part than France as regards exports and a slightly smaller one as regards imports, but both imports and exports had an upward trend.

The diversion of a constantly growing share of foreign trade overseas at the expense of neighbouring countries did not take place without some sacrifices, in regard to both the costs of transport and prices.

In respect of the balance of trade Poland, as a debtor country, was structurally inclined to a surplus of exports, as already mentioned.

The import surpluses were largely dependent on the influx of foreign capital or short-term credits. The periods of import surplus were mainly the times of recovery and boom, accompanied also by an influx of foreign capital and credit. The largest surpluses were attained in 1927, 1928, and 1929 (in million zloty: 377, 854, and 298 respectively).

The periods of export surplus were times of depression or stagnation; the largest surpluses being attained in 1926 (707 million zloty) and 1931 (411 million).

On summing up all the import surpluses and comparing them with all the export surpluses during the period between 1924 and 1938, we come to the conclusion that the former were more than twice as high as the latter, the import surpluses being, roughly speaking (in million zloty), 4,164, while the export surpluses were only 1,923. The difference is a rough expression of foreign capital investment in Poland during this period, as her sum of gold stocks and foreign assets in 1939 was not far removed from the figures of 1924.

The export surpluses were in later years mainly attained in the trade with overseas countries, especially with Great Britain, while the continental trade—bound by the control of foreign exchanges—assumed more and more a 1:1 parity. Trade with the U.S.A., owing to large imports of cotton, showed a considerable adverse balance; however, during the latter years, owing to large exports of tinned ham, the position improved.

Now let us take a glance at the chief commodities exported by Poland and see what changes occurred in the period recorded.

The main export goods were coal, timber and wood products. The two groups together covered one-third of all Polish exports, the share of each being nearly equal.

The best customers for coal during the latter years were Sweden, France, Italy, Belgium, Norway, Denmark, and Holland. For timber and wooden goods they were Great Britain, Germany, Holland, and Belgium.

The share of farm produce in the total exports amounted to about 40-44 per cent. More than half of all farm exports (about 54 per cent. in 1936-7) consisted of cattle and dairy produce, especially canned bacon and meat, eggs and butter. The best customers for these products were the United Kingdom, the U.S.A., and Germany.

In industrial exports the part played by the iron and steel industry was the most important, especially as regards iron and steel sheets, iron and steel tubes, and railroad rails. In 1937, it amounted altogether to 7 per cent. of the total exports.

Some branches of exports showed a tendency to shrink; some, on the contrary, a marked development.

The export of sugar constantly declined. The export of live stock, especially pigs, decreased. Exported eggs and butter also found a declining market and fell away sharply. The export of wheat, although subject to sharp fluctuations, being, of course, dependent on the crops, showed a marked tendency to fall off, this being partly the outcome of a shrinking world market and partly of expanding cattle and pig-breeding in Poland.

The coal industry had its best export year in 1926 (14.2 million tons) during the great miners' strike in Great Britain, and maintained its position until 1929 (13.9 million tons in that year). During the Great Depression there came a breakdown, when nearly one-third of the total volume of exports was lost (export in 1932 = 10.2 million tons). The further decline came after the Ottawa Agreements, followed by the British Trade Agreements with the Baltic States. In 1936 the volume of coal exports reached the low level of 8.3 million tons, roughly speaking 40 per cent. below the level of 1926-9. A substantial improvement came after the Polish-British Agreement, the volume of coal exports rising in 1937 to 11.0 million tons.

Exports of raw timber also showed a decline, to some extent due to new regulations in Polish forest economy, which restricted the output of timber.

Among declining exports were the products of the zinc, petrol, and alcohol industries and those of the textile industry as a whole.

On the other hand, Poland had quite a number of expanding branches of export. The export of bacon and tinned ham, which went chiefly to the United Kingdom and the U.S.A. respectively, was expanding rapidly. Iron, steel, and metallurgical exports were expanding, especially railroad rails and iron and steel sheets. The chemical industry, exporting mainly fertilizers, was steadily growing. The manufacture of wooden articles was also one of the expanding export lines.

Broadly speaking it may be said that there was a marked tendency to develop the export of goods containing more labour, i.e. finished goods rather than raw materials. Instead of livestock, bacon and tinned ham were exported; instead of crude timber, plywood, bentwood

furniture, coopers' wares, parquet slabs, and floorings. The export of ready-made clothes and silk fabrics, which went mainly to the Middle East and Morocco, took the place of that of yarn.

Now let us turn to the composition of the imports. The trend here moved in exactly the opposite direction. They consisted more and more of raw materials and semi-manufactured goods and machinery. These groups constituted in later years nearly 70 per cent. of Poland's total imports.

Nearly 20 per cent. of the import total was made up of cotton and wool (1937); 10 per cent. of scrap-iron, ores, slag, and cinders; 12.8 per cent. of machinery, machine tools, and means of transport; 6.8 per cent. of raw furs, raw hides and skins; 2.3 per cent. of copper and copper sheets, etc.

Poland, to a large extent lacked industrial raw materials, and had therefore to import them. Among these may be mentioned copper, nickel, tin, silver, cotton, jute, wool in sufficient quantity, raw silk, besides tropical and semi-tropical foodstuffs, some skins and leather, together with machinery and industrial and transport equipment. The need of imports was extremely great and expanded rapidly with every recovery or development of industry. The constant pressure of imports imposed the policy of restrictions and quotas, as the most urgent needs could not be covered by exports.

6. THE CARTELS

POLISH industry was very well organized, in certain respects even over-organized. There were Employers' Associations and Unions on the one hand, cartels and syndicates on the other. Nearly every industry had its own association to represent and defend the interests of its members, especially *vis-à-vis* the Government, and for research and development of industrial skill, etc. Many associations published reviews and attempted to influence public opinion. The associations were organized under one Central Union in Warsaw. *The Central Union of Polish Industry, Mining, Trade, and Finance* originally embraced the former Russian sector and later included the Austrian sector also, and in 1932 it was merged with another powerful association, *The United Industry and Agriculture of Western Poland*, under the name of the *Central Union of Polish Industry*. It then became a powerful centre of economic, and also to some extent of political, power. It was headed by a very able man and a master of the political game, A. Wierzbicki.

Besides the employers' unions Polish industry developed an increasing number of trade organizations in the form of cartels and syndicates. In 1919 there were only 9 cartels, but the process of cartelization proceeded with elemental force. By 1929 there were already

100 cartels, controlling nearly 40 per cent. of industrial production. The Great Depression, which brought about the breakdown of the internal price structure enormously speeded up the process of cartelization. At the end of 1936 the number of cartels, in spite of the dissolution of some of them by Government decree, had risen to 266. All basic industries were cartelized. There was a powerful coal cartel, a zinc syndicate, a syndicate of ironfounders, a union of cotton producers, the sugar cartel, the cartel of timber producers, a syndicate of the petroleum industry, a syndicate of crude oil producers, a cement cartel, a cartel of the mining industry, etc. They flourished, especially in mining and the heavy industries, but also in the export trades.

Internal cartelization enabled Poland to participate in a large measure in international cartels. Among international cartel agreements may be mentioned the accession of the Potash Salts Company to the Franco-German Potash Agreement in 1932; the territorial agreement between the Polish, Czechoslovak, Austrian, and Hungarian iron and steel foundries in 1932; an agreement on January 1, 1935, between the colliery owners of Great Britain and Poland with regard to exports of coal (the Polish quota was not to exceed 21 per cent. of British shipments to the same markets); Poland's part in the international agreement concluded on Polish initiative in Copenhagen by the timber exporters in 1935. Poland also participated in the Chadbourne Plan and in the international Sugar Convention in 1931.

How can the great drive towards cartelization in Poland be explained? Many factors were responsible for it:

- (1) The concentration of ownership or control in many industries especially those in which the share of foreign capital was great.
- (2) The high protective tariffs, which gave the industries complete protection for their prices on the basis of quota regulations when agreed upon.
- (3) The great differences in costs of production in the various sectors of Poland and in the different districts which had developed separately. If the markets were left to the play of supply and demand, some centres would be obliged to give up their industrial activities and some areas would become deindustrialized. This was the case, for instance, with the Cracow coal-mining industry, the sugar industry in the Central Provinces, or the steel industry in Kielce. For both social and political reasons, these districts could not be left to the play of economic forces.
- (4) The lack of investment funds, owing to which outsiders could easily be kept at arms' length.
- (5) The large number of restrictive regulations, especially quota regulations in imports and exports, which very often made it imperative to call a cartel into existence in order to comply with these regulations.

The defenders of cartels have called them "children of distress", which means that they were set up in order to defend the right of the respective plants to live, but very often they were the "children of greed". Further, they were children of the monopolistic age, which has everywhere driven production towards restrictions, monopolies, and industrial agreements. They were extremely unpopular in Poland, and very soon a major campaign was started by the Press for their public control and supervision as well as for the restriction of their field of activities.

With regard to cartels the Government was in two minds. It recognized that they are very often instruments of exploitation, sometimes even of foreign exploitation, as many cartels were controlled by foreign capital. The disparity between "cartelized" and "free" prices was obvious from the figures already quoted in the chapter on the Great Depression. This disparity led especially to the so-called Price Scissors, which were but a form of permanent exploitation of agriculture by industrial interests. This was the reason why the Government wished to follow up the popular cry against cartels.

On the other hand, the Government regarded cartels as an efficient instrument of economic control. It made great use of this instrument, especially in the province of exports. The whole export policy was based on cartels. Many export branches, especially sugar, coal, steel, oil, zinc, were based on the price discrimination between internal and export prices, the deficit in export prices being covered by the excess of internal prices. But the internal prices had to be supported by cartel agreements. Very often the Government created export cartels, by granting premium bounties, as was the case with exporters of bacon to Austria, the cartel of grain exporters, the exporters of textile articles, etc.

Some cartels were semi-compulsory, of a public character, e.g. the sugar cartel and the syndicate of oil producers.

The sugar cartel was a semi-official organization which carried out the production and distribution programme settled every year by the Government in the Regulations for a given campaign in which the production quotas for the whole country were fixed for each production district, allocating to every plant the amount of its production designed for the home market and that for export, and fixing the stocks which the factories were bound to retain in their warehouses.

Moreover, the cartels were closely linked with the great "State concern", with all the State-owned enterprises, which very often participated in them. And this was an outstanding obstacle in the way of any interference with cartels from the point of view of general interests.

Finally, the cartels were very often political supporters of the Government, and influenced the elections by means of their financial resources and economic controls. This has been asserted, for instance, in the

case of the yeast cartel, which was supposed to provide funds for the elections in return for the privilege of prohibiting any capital investment in new plants.

During the Great Depression, when the excess of cartelization on the one side and the popular reaction against it on the other came to the fore, the Government started its activity against the cartels. It submitted to the Diet the Cartel Law of March 28, 1933, providing for the oversight of all agreements, resolutions, and decisions aiming at the control "through reciprocal obligations of production, prices, or the general conditions on which goods are exchanged in mining or trade". All these agreements had to be registered, as did any participation of domestic enterprises or associations in foreign cartel agreements, in the Cartel Register under a penalty of 50,000 zloty. The Cartel Register was a public one kept at the Ministry of Industry and Trade. The Ministry had the right to inspect all books and records of the cartels, and of temporarily suspending the activities of any cartel, by bringing a case before the Cartel Court, which had to confirm this suspension.

A special Cartel Court was set up in the Supreme Court of Justice; it was composed of five members, namely; three judges of the Supreme Court and two persons conversant with the economic conditions of the country. This Court had the right, on a motion of the Ministry of Industry and Trade, to dissolve cartels or to cancel their resolutions or decisions, whenever they were considered harmful to the general prosperity, and particularly when inadvisable from the economic point of view, or if they kept prices at an economically unjustifiable level. The Court might release the members of a cartel from any obligation to comply with the decisions taken by the cartel.

The first legal proceedings before the Cartel Court were in connection with the Cartel of Cement Industries. The Minister had suspended its activities because of its very high prices, and the decision was unanimously confirmed by the Court, which afterwards gave judgment for its entire dissolution. After the suspension of the Cartel, cement prices fell by 30 per cent., and some factories which till then had been idle resumed production.

A still stricter control was imposed by the Cartel Decree of November 27, 1935. The Minister was given the right not, as before, to suspend temporarily, but to cancel any cartel agreement which was detrimental from an economic point of view, but with the stipulation that any member of the cartel might within fourteen days appeal to the Cartel Court, demanding the withdrawal of the Minister's decision, though such an application would not prevent that decision being put into effect.

The Government at once utilized these new powers. Many small—mainly trading—cartels were dissolved, and some of them, seventy-nine in all, decided to dissolve voluntarily or semi-voluntarily. Many

other cartels then decided under Government pressure to lower their prices, and between 1936 and 1937 twenty-five more cartels were dissolved by the Government.

But while small cartels were being dissolved, large ones flourished again and enlarged the field of their activities. In 1936, beginning with the new exchange legislation, quota regulations and clearing agreements, the cartels again proved an extremely useful instrument for quota regulations in the distribution of import licences, foreign exchange, price, and quantitative regulations in production.

Once again it was proved that all restrictive legislation leads to the strengthening of monopolistic trends, while, on the other hand, monopolistic organization merely increases the tide of restrictionism still further.

As a whole, the cartels formed an obstacle to the process of industrialization. An organization perhaps suitable for industrially more developed countries was certainly not suited for a country passing through the early stages of its industrial development.

7. POLISH ÉTATISM

THE *étatisme* deeply rooted in Polish soil grew like a tree with great and wide-spreading branches. It had manifold sources, some inherited, some new, but every period of the short Twenty Years contributed to its further development.

The Polish State inherited from the Partition Powers large State-owned factories, railways, forests, mines, banks, and fiscal monopolies. The rule applied in these cases was that monopolies of this kind operating in one part of Poland were extended to cover the whole of the State territory. For instance, the alcohol monopoly which was in operation under the Russian occupation was extended to the whole State. The same happened with the salt and tobacco monopolies of the former Austrian Sector. Poland had in the end five State fiscal monopolies, the new match and lottery monopolies being the fourth and fifth. The same rule was applied to the local State banks taken over by the Polish State. Out of these was created the largest State bank for long-term investments in industry and municipalities, the Bank of National Economy (*Bank Gospodarstwa Krajowego*).

The extensive State estates and forests taken over from the Partition Powers were to a large extent the result of their policies of extermination and confiscation of Polish property.

War economy, especially under the German occupation, which in 1917 and 1918 covered the greater part of Poland, also played a great rôle in influencing future development in this respect.

We now come to the genuine new sources of *étatisme* which sprang up during the Twenty Years.

The war economy lasted almost up to 1921, and new war controls were introduced. The fact that the Polish State came into being during the wars of independence and that the administration was set up under war conditions was largely responsible for the spirit of *étatisme* which imbued the whole Polish bureaucracy.

The next factor was the necessity of setting up certain industries hitherto completely non-existent in Poland. The Partition Powers had not established armaments or munitions industries either in the strict or even in a wider sense. The question therefore arose: Who would build the new factories? Genuine savings were lacking, having been lost during the long process of inflation; private capital was scarce. Besides, the new factories, in order to keep going, had to rely entirely on Government orders for munitions. It was but natural that the new factories needed for the State, for its defence, communications, and very often for its administration, should be undertaken by the State itself. Thus large State munition factories near Lublin and Radom were erected in 1924-9 in the same way the port of Gdynia, the large chemical factory at Mościce, new railways and communications, and most of the factories in the industrial Central District were constructed.

The next factor to be noted is the amount of foreign capital in Polish industry. The large part played by foreign capital (very often not unpolitical in character, and sometimes even hostile, e.g. German capital) was responsible for the drive towards the nationalization of the large factories in foreign hands. There are two important instances in which the State took over large holdings of industrial shares after agreement with the shareholders. In one case a key position in coal-mining, the smelting and steel industry of Upper Silesia, known by the name of "The Silesian United Royal & Laura Foundries Katowice", comprising anthracite coal mines, the Royal and Laura Steel and Iron foundries, the Zgoda Foundry, and the Mechanical Workshops in Królewska Huta, employing about 16,000 workmen, were entirely controlled by Herr Flick, of Berlin.

Another instance was that the biggest textile factory in Poland, at Żyrardow, which controlled almost the whole life of that town, was owned by M. Boussac, and there were many complaints of abuses due to this power of control.

In both cases the taking over of these concerns was arranged by M. Floyar Rajchman, the Minister of Industry and Trade, a man of resource and energy, who insisted upon the absolute compliance of foreign capital with the Polish *raison d'état*.

The Great Depression was a major factor in the future growth of the already well developed tree. Many factories of national importance, and many banks, went into liquidation. From the point of view of the labour market, defence, etc., their maintenance was regarded as essential, and the Government was compelled to take over these

undertakings, or provide credits or guarantees and afterwards take them over as repayment in kind. Thus began a very peaceful process of what was called "cold socialization", i.e. the socialization of losses.

Another important factor was the weakness of the Polish banking system. The private banks were relatively small, and their financial resources often insufficient. The bulk of the savings entrusted to them were kept as short-term or sight deposits, as the depositors were very nervous and always eager to be able to withdraw their money at the shortest possible notice.

On the other hand, the Government, by means of many loans, especially large stabilization loans, monopolies, enterprises, banks, and finally through its Post Office Savings Bank, which conducted a successful large-scale savings campaign, collected powerful financial resources. The long-term credits as well as a substantial part of short-term credits were completely in the hands of Government or semi-official investment banks. It has been estimated that, in 1937, 47 per cent. of bank credits of every kind were granted by State and other semi-official banks. These credits granted to industrial enterprises often led finally to their being taken over by the State in the case of default.

The basis of taxation in Poland was very small, confined in reality to one-third of the whole population, since the peasant did not represent an efficient source of taxation for economic, social, and also to some extent political reasons. This led to over-taxation of private industry and trade, on which the whole burden of heavy taxation was concentrated. The over-taxation of industry and trade made it impossible for industry to finance itself (what the Germans call "*Selbstfinanzierung*"). The quotations of industrial shares on the Stock Exchange were permanently depressed, those of most of the joint-stock companies being below par, and this made the issue of new shares most difficult. Here we have another source from which the tree of *Étatisme* spread still further. We see that it was really an organic process related to the whole pattern of economic life.

We will now give some figures indicating the large extent of State ownership in Poland. The value of State property of every kind in buildings, railways and communications, industry, estates, forests, fiscal monopolies, banking shares, etc., was estimated on January 1, 1927, at 16,401 million złoty.¹ As the whole national wealth was estimated at 137,463 million złoty, the percentage of State ownership was impressive.

For banking there were three important State banks: The National Economic Bank for long-term investments in industry and municipalities, the State Land Bank for long-term investments in agriculture and for financing land reform, and the Post Office Savings

¹ S. Kruszewski, *The Ownership of the Polish State*, Warsaw, 1931.

Bank, the largest collector of popular savings all over the country. But besides these, the Government controlled large stocks in the Silesian Bank, the Polish Industrial Bank, the Co-operative Bank in Poznań, etc.

The State owned 93 per cent. of all the railways. The value of the capital invested in State railways and rolling stock on January 1, 1927, was estimated at 7,466 million złoty. The State owned 100 per cent. of the Commercial Aviation Companies, 95 per cent. of the Merchant Marine (*Żegluga Polska*), the post, radio, telegraphs, and telephones.

Three-eighths of the forests of the country belonged to the State. The area covered by State forests amounted to 2,859,925 hectares, and their value with industrial and other investments was estimated in 1927 at 2,681 million złoty.

In industry the State controlled 70 per cent. of the iron production, 30 per cent. of the coal output, 99 per cent. of the salt mines, 100 per cent. of the potash industry (*Tespy*), 20 per cent. of the oil refineries (*Polmin*), 50 per cent. of the metal industry, 100 per cent. of the aeroplane industry and the larger part of the chemical industry, the biggest chemical factories, *Polmin*, *Mościce*, *Azot*, mainly producing artificial fertilizers, being State-owned.

Even in trade there were many State agencies for export, the largest being the Paged, a State-owned firm for the export of timber and wood products, and the State grain establishments.

There were many mixed concerns, owned partly by the State, partly by co-operatives, municipalities, public insurance companies and private businesses.

This big "State-concern", so diversified and covering so many different industries, was a major embarrassment to the Government, especially to the Treasury. It taxed the Treasury heavily, as most of the State enterprises did not pay. The administration was bureaucratic and inefficient. According to estimates made by M. Bernadzikiewicz for the nine years 1929-38, all State undertakings paid to the Government in profits an average of 55 million złoty a year, which he estimated as 0.5 per cent. of their capital value.

The State enterprise had many privileges, especially certain tax exemptions, better credit terms from the State banks, some customs privileges, more advantageous transport tariffs on the State railways, cheaper prices for deliveries by State-owned concerns, better prices for Government orders, etc.

The private businesses complained bitterly of the unfair competition of the State enterprises, asserting that in the long run it would be impossible to stand up to their competition. The Government felt it necessary to take steps in the matter, and in January 1936 appointed a special Commission to make a report on this question. The Commission, composed of business men and economists (the writer among them), headed by M. Olszewski, prepared a report

running into twenty volumes which, however, the Government was unwilling to publish since it had started on a powerful new drive towards *Étatism* in the Industrial Central District.

Étatism proved a powerful instrument of control in the economic sphere, but at the same time a factor of powerful influence exerted by business on the Government and its economic policy. The Government could not function impartially as arbitrator between contradictory interests and views because it was always interested in the issue itself. The managers of the State enterprises exercised great pressure on the Government and influenced its policy. This especially affected the Government's customs, price, and cartel policy which sometimes assumed a sectional imprint.

8. THE BANK OF POLAND

As we have seen, the first Central Bank was a State-owned Bank, the National Land Caisse, a mere branch of the Government's administration (the *Polska Krajowa Kasa Pożyczkowa*). Its chief tasks were to provide the Government and industry with the money and credits needed for reconstruction and for covering the deficit in the Treasury. These tasks were fairly well performed, and the flow of credit and money was continuous. But the enormous creation of means of payment by the Government led to superinflation, and this source was very soon exhausted. With it the rôle of the State Central Bank also came to an end.

In 1924 a new Central Bank, called the Bank Polski, revived from the time of Lubecki's Bank in 1828, was set up as a joint-stock company, privately owned by shareholders, and some statutory guarantees in the form of legal cover for notes in gold and exchanges were adopted. (See chapter on the Stabilization Plan.)

The creation of a separate privately-owned Central Bank was an essential part of Grabski's reform. It had to provide the basis for the restoration of the Polish people's confidence in sound money. They shared with many other peoples the belief that the necessary conditions for a "sound money system" must be guaranteed by two factors:

- (1) The strict separation of the Administration from the Central Bank, which could be achieved by a privately-owned Bank. The task of controlling the money and credit system of the country should be allocated to such a bank, and the Government should have nothing to do with this domain.
- (2) The legal gold or (foreign exchange) cover of notes, which is a provision similar to the legal cash cover of the sight liabilities of an ordinary bank. The notes are sight liabilities, and the cash of a Central Bank is gold or foreign exchange.

On these two points public opinion was extremely sensitive, regarding any restriction of the real independence of the Central Bank or any lowering of the real cover of notes as an attack on sound money, and therefore on the savings and investments of the Polish people. As in most European countries something between 30 and 40 per cent. was regarded as the limit of cover for a sound money, and when this limit was reached, danger was regarded as imminent.

This very greatly restricted the freedom of manœuvrability of the authorities of the Bank Polski, because in times of emergency, gold reserves could hardly be used. The use of reserves would mean going beyond the legal limit, which would awaken general distrust, and the flight of capital in the shape of the hoards of gold and of foreign exchange.

The second limitation in regard to the real use of gold reserves was formed by the claims of military circles; they considered that a certain minimum of gold reserve must be regarded as a strategic reserve, which in times of emergency might be required to pay for urgent and unexpected needs in time of war.

From 1924 until 1926 the Bank Polski had—to some extent of course—been actually independent, and this independence found its expression in the autumn of 1925, when the President of the Bank Polski, Karpiński, refused any longer to sell the gold and foreign exchange of the Bank in order to support the parity of the zloty. He was right in his refusal, as the task was hopeless. This caused Grabski's dismissal and the breakdown of the zloty and of the whole reform system.

But the breakdown of the first monetary reform was to some extent also the breakdown of the first status of the Bank Polski. The provision for real control by the Bank over the money and credit system of the country proved inadequate, since the Government appropriated to itself in large measure control over the money and credit systems:

- (1) by the issue of Treasury notes and token money, which assumed ever greater proportions, amounting at the end of 1925 to nearly 70 per cent. of the Bank Polski's notes in circulation.
- (2) by the creation of powerful State banks, such as the Bank of National Economy and the State Land Bank, the activities of which were not confined to long-term credits alone, but also invaded the territory of short-term credits.

The Stabilization Plan of 1927 not only fully restored the position of the Bank Polski, but enormously strengthened it, so that it became in the conception of the authors of the Plan a real power over the money and short-credit system of the country and its exchange and credit relations with foreign lands.

We have described elsewhere the main points of the Stabilization

Plan and pointed out the rôle played in it by the Bank Polski, which was at the same time linked with the network of Central Banks in all the leading countries.

The new Statutes adopted by the general meeting of shareholders worked very well in times of prosperity, and nothing could be said against their pattern from the point of view of economy during such periods. But in times of depression, especially during the Great Depression, the new Statutes very soon proved a real obstacle to recovery.

The restrictions in regard to credits for the Treasury, for the farmers, for industry, the provisions for legal cover, the restrictions on the open-market policy—all these proved an obstacle to recovery. The whole idea of a Central Bank, conceived as a kind of private bank divorced from the national economy, which has to watch the interests of the money system and of foreign capital, was a contradiction to the most pressing needs of the national economy. The idea which had the Bank Polski as its basis was a money-centred conception, which over-emphasized one kind of security, that of money value in terms of gold and foreign exchange, disregarding all other kinds of security.

The zloty survived amidst the general depreciation of the world's best-established currencies and amidst the ruin of its own national economy. The new status of the Bank Polski from this point of view seemed a success, but was really a failure.

When the foreign economic adviser to the Bank Polski and the Polish Government, instituted by the Stabilization Plan, ended his first three years of office in 1930, his appointment was not renewed, and the Government regarded itself as free from further restrictions on changes in the Statutes. The changes, however, were introduced only very slowly, with much caution and with great propaganda preparation, which sought to prove that they were not really a danger, but were technicalities of no significance whatever.

The writer well remembers how great a fuss was made by the Government spokesmen when the first secret news leaked out of the change in the Statutes which had been decided upon, and how great was the Government's fear that the public might receive it unfavourably. But when the first change passed without making any great impression, the Government embarked upon further gradual changes which took place nearly every second year.

The first change was introduced at the General Meeting of the Shareholders and confirmed by the law of March 24, 1933.¹ This change consisted in the lowering of the legal cover of the zloty from 40 to 30 per cent. The new Statutes excluded foreign exchange from the cover, which was henceforth to be only in gold. The new regulations also provided that the legal percentage of cover should apply

¹ *Bank of Poland*. Economic Research Department, Warsaw, 1933.

to the amount of notes in circulation and that of sight liabilities in excess of 100 million zloty, while before all sight liabilities had been taken into consideration. The principle of levying a tax on the excess circulation and of raising discount rates when the circulation exceeded the legal minimum was maintained, but the new regulations were less severe, and the rates were lowered. Restrictions on the proportion of agricultural bills to the total amount of the Bill Portfolios were abolished. Besides the old type of shares, new types of shares of the Bank Polski, shares to bearer of small denomination, not carrying any right of participation in the general meeting of shareholders, were issued, and this gave the Bank Polski a new character, as a holder of stock rather than of shares.

The next change in the Statutes was introduced by the law of March 26, 1935. The new Statutes authorized the Bank to purchase securities for its own account up to the amount of 150 million zloty, and not, as hitherto, up to 10 per cent. of the authorized capital and reserve fund. The aim was to enable the Bank Polski to play its full part in the new conversion schemes for short-term indebtedness of farmers, for whom the Acceptance Bank was created. Certain credits granted to the farmers by the Bank Polski were to be converted into long-term credits, and the new statutes supplied the legal framework for this purpose.

Further changes in the statutes came at the General Meeting of shareholders held on February 20, 1936, and were confirmed by the law of April 9, 1936. The principal changes provided for a repurchase of the second issue of the shares of the Bank taken over by the Treasury in 1927 during the Stabilization Plan. The Stabilization Plan had looked to the sale of these shares by the Treasury, but this sale never materialized. Now the Bank Polski took over its own shares at the same price as that paid by the Treasury in 1927, and destroyed the shares. The authorized capital of the Bank Polski, augmented in 1927 to 150 million zloty, was once again decreased to 100 million, and the reserve fund was reduced by 25 million zloty. The Treasury received 75 million zloty, which were paid out of the funds of the Central Bank. It was an ingenious method of getting money out of the Central Bank and at the same time consolidating its capital basis.

The biggest and most radical change came with the introduction of foreign exchange legislation which at one fell stroke deprived the Bank Polski of its former status and made it entirely subservient to Government control. The whole domain of money-credit and exchange relations had from now on to be regulated by the Ministry of Finance, and the Bank Polski became only a subordinate instrument of the Ministry.

The formal expression of the new statutes was the dismissal of Colonel Koc, one of the most prominent of the old Pilsudski guard and an ardent supporter of the orthodox monetary policy, and the

appointment of M. Byrka, an ex-civil servant and politician, as Governor of the Bank.

The last changes in the statutes of the Bank Polski, which became law on March 24, 1939, introduced a completely new institution unknown in Polish practice, namely, the fiduciary issue. The fiduciary issue, free from any cover in gold or foreign exchange, was fixed at 800 million zloty, and the Council of the Bank was authorized to increase this amount by 400 million. A legal cover of 40 per cent. in gold was provided for, but only for the amount of notes in circulation and sight liabilities exceeding the fiduciary issue.

The new Statutes provided for large credits to be granted by the Bank to the Treasury:

- (1) A non-interest-bearing credit on open account instead of the previous 100 million zloty, up to the amount of 150 million.
- (2) An interest-bearing redeemable credit up to the amount of 515 million, advanced for the purpose of consolidating certain credits granted by the Bank Polski to the State Banks from 1931 to March 25, 1939.

New and higher limits for certain bank operations were set up, very much larger than before, especially for the total of loans and advances against collateral security, for the total amount of Treasury bills, and for the total sum of securities purchased on the Bank's own account. Bills at nine months were made eligible for discount if they represented the financing of agriculture.

The Statutes introduced further changes which gave the Bank's shares rather the character of stock, and provided for the limitation of dividends, which were expected to be very high after these changes. The Treasury might avail itself of its share of the profits of the Bank after a dividend of 6 per cent. had been paid.

Thus the circle was closed, and the starting-point of a Government-controlled Central Bank was reached once more.

9. THE BANK CRISIS

WE SEE during the Twenty Years a hard and continuous struggle towards bank restoration, bank reform, and bank equilibrium.

During the long period of war and the first post-war inflation banking was largely disrupted and deposits dwindled. The private banks were used for financing transactions in foreign exchange and speculations in industrial shares, while conditions for deposits and commercial credit business were non-existent. From 1924 a rapid revival in deposits and savings on the one hand and in credit activities on the other took place, which was an amazing effort to restore the old apparatus of banking.

The first serious bank crisis began in the autumn of 1925 in connection with the depreciation of the new zloty currency: deposits were suddenly called in from abroad as well as from inside the country. Many banks suffered heavy losses in foreign exchange and defaulted. The Government had to assist many banks with relief credits and guarantees, or even by taking over some of the shares. Thus, for instance, the Treasury acquired the shares of the Bank of Silesia, and those of the Polish Industrial Bank, which was afterwards liquidated.

The system of private banking underwent a substantial and long-needed reform. This consisted in the reduction of personnel, the reorganization of the administrative apparatus and its rationalization; also many branches were under the new condition liquidated. The whole system of banking had to be adjusted to the new conditions, which were completely different from the old ways of inflationary credit.

A substantial reduction was made in the whole field of private banking, and a process of concentration started which endured almost to the end of the period under review. From 1926 to 1930 the number of joint stock banks fell from 71 to 49, and of their branches from 218 to 152.

This process did not affect the State banks and their branches, the number of which rose in the same period from 26 to 41; the Post Office Savings Bank and its branches and agencies, which rose during this period from 3,089 to 3,657; communal savings institutions, the number of which rose from 225 to 421; and Co-operative Credit Associations, whose number rose from 3,664 to 6,169.

The best years for Polish banking were 1927 and 1928. In these years the deposits in private joint-stock banks were nearly doubled, rising, in million zloty, from 514 to 914. Their credit activities rose at an even higher rate. In savings banks the deposits were trebled, rising from 222 to 674 million zloty and in Co-operative Credit Institutions even more than trebled, rising from 83 to 261.

Then came the Great Depression. In 1929 deposits and savings still rose slightly, while the amount of credit substantially increased. The first blows came in 1930 with the withdrawal of foreign short-term credits, and the big blows in 1931, when the foreign withdrawals were accompanied by a run on the banks by the public. This was the time when the Credit Anstalt in Vienna and the Amstelbank in Amsterdam both suspended payment; both had strong links with Polish banking. Then followed the default of some of the so-called *D. banks* in Germany which had many links with the banking industry in Polish Silesia, the collapse of the Kreuger concern, the departure from the gold standard in the sterling countries, etc.

The private joint-stock banks lost 40 per cent. of their deposits in one year alone (1931), the total of their deposits having dropped (in million zloty) from 1,121 to 671.

The whole weight of pressure was put on private banking, both on the part of foreign capital and of Polish depositors, while savings banks and State banks were able either to augment their deposits slightly or to maintain their usual level.

The bank crisis in its most acute form lasted almost to the middle of 1934. In 1932 the banks lost further nearly 20 per cent. of their deposits. In 1933 came a new great shock in the form of the depreciation of the dollar, which caused the withdrawal of dollar deposits lying mainly in private banks.

The banks, having lost their deposits, started a policy of contracting their assets by selling shares and securities and calling in their credits, and this aggravated the economic depression enormously. Credits, especially in agriculture, when suddenly called in, proved to be frozen, and the credit activity of private banks consequently showed a continual shrinkage.

However, in the large banks there was no bank crisis in the sense of a default. Only small banks of a local character went into liquidation, as, for instance, the Agricultural Bank of Pomerania in Toruń (*Pomorski Bank Rolniczy*) and the Poznań Landowners' Bank (*Poznański Bank Ziemian*) which suspended payment in 1932.

All the large banks were able to maintain their solvency, partly through assistance from the Government and the Bank Polski. In 1933 the Government created a special Bank for the conversion of short-term agricultural credits, the so-called Acceptance Bank, and its activities greatly helped in the mobilization of frozen assets.

A slight recovery in banking came in 1934, in spite of the partial withdrawal of deposits in the counties of Cracow and Lwów in connection with the catastrophic flood which occurred there. But this slight recovery lasted only a very short time. The death of Marshal Piłsudski in 1935, followed by internal troubles and general public distrust, aggravated by the ever-growing political tension in central Europe, caused the next phase in the banking crisis. From mid-1935 until the spring of 1936, when the new exchange control was imposed, the banks again lost their deposits, which were either hoarded or sent abroad.

After the introduction of exchange control, a slight improvement in banking generally was experienced and the ground prepared for new confidence. At least the exchange control provided a stable framework for a permanent convertibility of bank deposits and State bonds into banknotes, and strengthened the security of both bank deposits and State bonds. The security of money in terms of gold or foreign exchange disappeared, but a new kind of security of bank deposits and savings in terms of money as well as State bonds emerged.

This did not, however, prevent the return of bank crises as the clouds on the political horizon in Central Europe grew denser and darker.

In March 1938 when Austria was invaded, the public kept its calm and withdrawals were slight. But this was not the case in September 1938 after the Munich crisis, which was followed by heavy withdrawals from banks of all kinds. In March 1939, when the Germans invaded Prague, the banking crisis again rose to fever heat. When the Polish ultimatum was sent to Kovno with the demand for the restoration of normal political relations, the banks had again to suffer from a very big ebb in deposits and savings, and this was named "the Lithuanian crisis".

The chief difference between the banking crises before and after 1936 was that the crises during the first period were caused mainly by economic factors and affected the private banks. The funds were hoarded either in gold or foreign notes, or sent abroad. The crises after 1936, or rather after 1935, had their source in political causes and affected mainly the Post Office Savings Bank and other savings banks or credit co-operatives, while the banks which, after all, were already pumped dry stood up better to the crisis. The deposits withdrawn were mainly hoarded in notes of the Bank Polski, which were regarded as a security during the war in the case of evacuation or other emergency.

The peak of bank crisis was reached after March 1939, when the contents of the ultimatum handed to Warsaw by the Germans became known and the imminent danger of war approached. From that time on, the hoarding of bank notes and coins grew enormously, and the circulation of money augmented rapidly, but in spite of this the shortage of notes and especially of silver coins was very noticeable.

After 1936, owing to these crises, the position of the Treasury became rather difficult. In former crises the Treasury had been compelled to interfere by credits or guarantees, but its status was not directly affected; but in the later crises the Post Office Savings Banks (and other savings banks, the funds of which were used in State investments) were directly attacked. This was equivalent to the necessity of immediate repayment of very large State debts and sight liabilities which aggravated the position of the Treasury.

10. TRENDS IN THE CREDIT SYSTEM

IT WAS an outstanding achievement of the young Polish economy that in spite of the Great Depression, the sudden recall of foreign short-term credits, the depreciation of the dollar, and the collapse of many financial centres abroad with which Polish banking was linked, no great bank whatever suspended payment. But this achievement was just a part of the general policy of prestige, stabilization of currency, and budget equilibrium combined with the desire to preserve solvency in foreign relations at all costs.

The Polish people were proud of this achievement, but they paid very dearly for it in their standard of living. Under this policy the banking structure itself underwent many substantial changes, the most conspicuous being the constant shrinkage of private banking.

Let us now survey briefly the chief trends in the Polish credit system.

(1) First of all the credit structure as time went on improved somewhat; the *rates* of interest and of deposit constantly declined.

The discount rate of the Bank Polski, which was 12 per cent. in 1924 and 1925 and 10 per cent. in 1926, reached a level of 8 per cent. in 1928, 5 per cent. in 1934 and $4\frac{1}{2}$ per cent. in 1939.

The maximum legal rate for financial institutions, which was fixed in 1926 at the extraordinary level of 20 per cent., declined to 12 per cent. in 1928 and reached 9.5 per cent. in 1937; the average discount rate of private banks, which was 12.2 per cent. in 1929, reached the level of 8.7 per cent. in 1937.

But even the lowest rates reached during the whole development were abnormally high.

(2) *A steady downward trend of private banking.* Its apparatus as well as its activities continued to shrink. In the sum-total of credits granted by Polish credit institutions, including the Bank Polski, private banking in 1928 shared to the extent of about 50 per cent., but in 1937 to only about 25 per cent.

As a collector of savings, private banking yielded place more and more to the Postal Savings Bank and Communal Savings Banks. The atrophy of private banking proceeded at a rapid pace.

(3) *State banking* became a main source of credit and its importance grew. It had a practical monopoly for long-term investments, as private long-term institutions had few resources at their disposal. But even in short-term activities State banking expanded to some extent. The three State banks developed their short-term credits between 1928 and 1937 (in million zloty) from 505 to 627, while the short-term credits of private banks shrank by half in the same time. While the deposits of private banks fell during the same period (in million zloty) from 941 to 618, the savings in Postal Savings Banks alone rose from 315 to 1,038.

(4) *Communal banking*, being under strict State control, also assumed ever greater importance. The savings in communal savings banks rose in million zloty at the same time from 359 to 830; the short-term activities from 291 to 424.

(5) The importance of *credit co-operatives* also rose relatively, but not at the same rate as that of State or communal banking.

(6) The rôle of the *Bank Polski* in the domain of short-term credits remained more or less the same, with a slight tendency to increase. Its share amounted, roughly speaking, to about 14 per cent. of the whole sum of short-term banking credit from all sources. In long-term investments during the last years the part of the Bank Polski was,

of course, small, but it increased with the open market policy on which the Bank embarked later.

(7) A fairly important part was played by credit granted by *individuals* outside banking channels. This carried with it extremely high rates of interest, usually above the level permitted by the law.

From many points of view the credit structure was unsound, and this was mainly responsible for the slow economic progress. The depositors were cautious, even over-cautious, and inclined to withdraw their money at any moment. Most of the deposits, as already mentioned, were deposits at sight, while savings tied up for a longer period were somewhat rare.

The Government, which was directly or indirectly responsible for the deposits and savings, went in constant fear of the prospect of causing a shock to the depositors. The depositors were really the rulers who decided the economic policy of the country. "What will the holders of savings-bank books in the Post Office Savings Bank (P.K.O.) say?" was the primary preoccupation of the Polish Government. This preoccupation was psychologically and financially understandable, as the distrust of the holder of a P.K.O. savings-bank book was equivalent to the necessity of repaying large short-term State credits. P.K.O. was a Government bank, of which practically all the money was invested in Government bonds. Furthermore, the restoration or rather establishment of the credit market on a normal footing was one of the chief objectives.

The anomaly of the credit market consisted not only in the extreme scarcity of the means of credit limited by an orthodox monetary policy but also in the distribution of existing means of credit. Investment credit was nearly non-existent, and, therefore, capital requirements were covered by short-term credits which were renewed from time to time. This alone was enough to disrupt the whole credit structure.

But the supply even of short-term credit was so inadequate that it was really impossible to establish a single reasonable rate for the whole credit market, even within the limits of a natural rate of profits from commerce and industry, not to speak of agriculture. If a single rate for the whole credit market had been established under a *laissez-faire* system, it would probably have amounted to substantially more than 10 per cent., even in the Great Depression.

The credit market was apportioned, i.e. divided, into separate compartments with different rates and quotas of distribution applied to them. The Bank Polski had a more or less closed quota for the discounting of bills, and its discount rate was always the lowest. The State banks had also their own rates—regarded as privileged—with special quotas. The same applied to communal savings banks. For different purposes special rates were in use, varying for agriculture, for some industries, etc.

The links between the extremely limited markets for securities and shares and the credit market were practically negligible. The rates of real rentability of securities were extravagantly high, and the new issues of industrial shares, even the most profitable, were difficult to place. The public had no confidence and no interest in either shares or securities. They had lost their savings in both investments during the period of inflation, and the bitter memory of the past was a powerful obstacle in the path of the revival of long-term investments.

We see that there was quite a number of credit markets with closed doors, and the interplay between them was very small. It might be said that the supply of credit was not only apportioned in small compartments, but also rationed, and the ration apportioned, not on an equal basis, but according to the importance of the demand to the national economy or politics.

11. FOREIGN CONTROL

THE political independence gained in 1918 was not equivalent to economic independence. Large economic resources in mining and industry, foreign trade and shipping, banking and insurance, were controlled by foreign capital.

During the first years the bulk of foreign trade was in foreign hands, i.e. both exports and imports were organized largely by bodies controlled outside Poland. Foreign trade was more or less passive and indirect, German and Austrian firms having the controlling power in this trade, as they were very often the intermediaries between Poland and other nations. As time went on, however, foreign trade became more and more active and direct, and the Germans, especially after 1925 (Polish-German tariff war), were ousted from their controlling position.

Shipping was until a late date completely in foreign hands. In 1936 about 77 per cent. of the volume (in tonnage) of foreign trade was carried on by sea, but only about 10 per cent. of this was carried on Polish keels.

Private banking and insurance were during the first years predominantly under foreign control, chiefly from Vienna and Paris, partly also from London, Berlin, and Rome. The controlling influence of foreign capital over banking and insurance decreased as time went on, but in 1937 more than one-third of the private banks were still under the control of foreign capital.

The major part of private insurance was in foreign hands, and even as late as 1935 the proportion of foreign capital in capital funds belonging to all the joint-stock insurance companies amounted to 65.4 per cent.

The bulk of mining and large-scale industry in Upper Silesia was in German hands; in Southern Poland Austrian capital had a great stronghold; while in the former Russian sector, French capital was predominant.

In the early years foreign capital made several new acquisitions, as during the periods of post-war inflation controlling shares could be taken over very cheaply.

The share of foreign capital in large-scale industries increased up to 1935, but afterwards declined. The decrease was due mainly to the taking over in 1936 of two big concerns, one the Silesian United Royal and Laura Foundries in Katowice, controlled by Herr Flick, a German national in Berlin, the other the French-controlled firm of M. Boussac in Żyrardow.

The share of foreign capital in the total capital funds owned by all joint-stock companies in Poland amounted to 33 per cent. The share in the total capital of all active joint-stock companies is given as 44·8 per cent. in 1935 and 40·1 in 1937.

The number of companies in which foreign capital participated rose from 363 in 1929 to 391 in 1937, while the total number of joint-stock companies declined.

The foreign-controlled companies stood the strain of the Great Depression better than other firms because they could rely on the support of powerful holding groups.

To estimate correctly the extent of the controlling power of foreign capital over Polish industry is difficult, for the statistics of foreign holdings cannot be relied upon. The foreign holdings were very often represented as being in Polish hands and camouflaged, although it was also not rare to find a reversed procedure adopted for fiscal and other special reasons.

Taking the statistics of foreign holdings in active joint-stock companies, the foreign share in the total capital owned amounted in 1937 to 40·1 per cent., but the controlling power of this capital covered a much wider range than 40·1 per cent. of productive capacity.

In 1937, out of a total of 1,066 joint-stock companies owning a total capital of 3,230 million złoty, foreign capital controlled 391 companies, with a capital of 2,050 million złoty, and the average share of its participation in these latter companies was 63·1 per cent. This means that two-thirds of all the joint-stock companies in Poland were controlled, in 1937, by foreign capital representing a majority of 63 per cent. The sum of foreign capital was at that time only 1,294 million złoty, but this amount enabled it to control a capital of 2,056 million, as the foreign concerns were concentrated in certain firms where they could obtain majority votes.

The preponderance of foreign over Polish capital was especially marked in some industries. For instance, in mining and the foundries foreign capital controlled 615 million złoty out of a total capital of

751 million by a majority of 63·6 per cent; in petroleum extraction it controlled 206 out of 212 million with a majority of 89·9 per cent.

Judging by the same indices the controlling power of foreign capital in the chemical industry was about 80 per cent. of the total, in the electro-technical industry about 90 per cent., in electricity and water-supply about 95 per cent., and in the textile industry about 40 per cent.

Taking as an index of nationality of foreign capital the nationality of the shareholders in industry and commerce, we come to the conclusion that the leading rôle was played by French capital. Of the total foreign capital invested, French capital participated in 1937 to the extent of 27·1 per cent., while American capital was estimated at 19·2 per cent., German at 13·8 per cent., Belgian at 12·5 per cent., Swiss at 7·2 per cent., British at 5·5 per cent., and Austrian at 3·5 per cent.

French capital extended its field after the war. It was interested in an important colliery (Skarboferm) in partnership with the State. The railway from Silesia to Gdynia was run by the Franco-Polish Railway Co. in partnership with the Polish State. In the construction of the port of Gdynia and in the making of roads, French capital took a leading part. From pre-war times it had held a leading position in both the petroleum and the textile industries. In the latter there were many complaints about the rôle played by French capital. The enterprises controlled by the French remained, in general, more or less stagnant. They showed no great desire to invest new funds in industry, as they were primarily interested in getting back their profits as quickly as possible.

The *American* part in Polish industry remained practically inactive. The American Poles showed a great interest in Polish industry at the beginning and acquired some controlling positions, especially in metallurgy. But the great American concerns showed much indifference towards Polish industry. They controlled a large part of the petroleum and zinc industries, and, to a much smaller extent, the metal and textile industries.

German capital had an extensive hold on Polish industry before the war. But as industry in Germany itself became more and more State-controlled and afterwards Nazified, the control of Polish industry by German capital was equivalent to control by a hostile foreign power. This was especially disturbing as the bulk of the industries of primary importance to defence was in German hands. The Government endeavoured to contract the scope and power of German capital in Poland, and was especially successful in 1936.

The German share in foreign capital showed a steady decline. It withdrew very early from the Central Provinces, confining itself more or less to Upper Silesia and Pomerania. In 1931 it amounted to 25·0, and in January 1937 to 13·8 per cent. of the whole foreign capital.

Its interests were chiefly centred in mining and the foundries, but also in the chemical, electro-technical, and metal industries.

British capital before the First World War had only a small share in Polish industry. After the war it showed an active interest in electricity, sea transport, insurance, the chemical industry and the sugar industry. British investments in electricity amounted to £3,582,000 between 1923 and 1936.

Belgian capital was very active. It led to the foundation of a number of new undertakings, especially in the iron and steel industries, electricity, the chemical industry, and even in banking.

Italian capital was predominant in insurance, and had some leading part in banking through the Banca Commerciale Italiana. It undertook the production of motor-cars in partnership with the State; it had also some part in the tobacco monopoly through the conclusion of arrangements in 1925; and it financed the textile industry in Łódź.

Swedish capital was mainly interested in the match industry which was rented to the Kreuger concern, but some was also vested in the electro-technical industry.

Dutch capital was centred in the cable industry and in communications.

We see from this how important was the rôle played by foreign capital in industry and trade. Taking foreign capital as a whole, the rôle it played was not altogether constructive. This is especially true when German and French capital is considered (these two, at the beginning, participating in industry to the extent of nearly half the total foreign capital involved), the first being politically minded and interested in the restriction of productive capacity in Poland, and the second short-sighted and very often regarding Poland as a domain of semi-colonial exploitation, and sometimes abusing its political influence by putting on pressure for its own interests.

British, Swiss, and Belgian capital played a very positive but a small rôle.

No great amount of foreign capital was invested in new undertakings, and no new industries were established. This applies especially to the period after 1929, when the Great Depression created a trend towards hasty liquidation of all capital assets in foreign countries, followed afterwards by the approaching political crisis in Central Europe.

The extent and character of foreign control of Polish industry was a source of many difficulties and anomalies. Every conflict between workers and employers had not only social-economic, but also political aspects. When the workers asked for an increase of wages or for more social benefits there was always a conscious or unconscious interpretation that their own people were struggling against foreign overlords or colonial exploitation.

The postulates and memoranda presented by business organizations were always suspected as coming from foreign sources and perhaps even inspired by a hostile Power. The Government had to be very cautious about everything which came from any industrial quarter whose intentions or who were its real instigators, it did not know.

The problem of profits and dividends had not only an internal domestic aspect but had also to be regarded from the standpoint of transfer. The control of prices had to be viewed in the same way, every augmentation of prices being equivalent to a burdening of the home market for the benefit of foreign capital.

The need for control of the whole of industry was greatly aggravated by the fact that industry was controlled by foreign hands. The cartels and trusts had to be watched more carefully as the ruling agencies had no real social links with the Polish people.

This discredited or at least weakened the position of the whole of Polish industry, whose legitimate interests were very often disregarded owing to the pressure of public opinion.

In the face of all this it was extremely difficult for the Government to adopt the proper attitude. The problem of the treatment of foreign capital was always a major political issue raised by many parties and pressed by public opinion; on the other hand it could not be and had not been allowed to violate the rights of property and foreign interests. Moreover, those interests were often very strongly organized and powerful, besides being protected by foreign powers.

Generally speaking, the interests of foreign capital in Poland were strongly safeguarded by the Polish Government, perhaps even more than some of them deserved.

12. THE POLISH PEASANT

THE poverty of the Polish peasant resulted from a development which dated back for many centuries, and in considering it we should bear in mind that in the largest part of Poland, that dominated by Tsarist Russia, serfdom was not abolished until 1861.

But the question arises: Has the poverty of the peasant during these twenty years of development diminished, or on the contrary, been aggravated? The correct answer to this question is very difficult to arrive at, all we can say is that during the whole of this period the poverty of the peasant, as in the other agricultural countries of Central Eastern Europe, could not be alleviated to a considerable extent.

Many factors were responsible for this, among them the following:

(1) The *war destruction*, which taxed agricultural wealth heavily. The destruction, however, was very soon made good during the period of post-war agricultural prosperity, and that of inflation, which favoured the agricultural markets in relation to the economy as a

whole. It may be said that the war destruction in agriculture had already been made good by 1923-4.

(2) The *Great Depression* brought about the most severe agricultural world crisis for eighty years. The position of the peasant up to 1929 was quite different from his position afterwards. It was acutely aggravated by the tariff war with Germany and the agricultural protectionism which closed their main markets to Polish products.

The agricultural crisis lasted much longer than the Great Depression. In 1934-5 it was even aggravated.

(3) *The dwindling size of rural holdings.* About one-fourth of all rural holdings were (1931) under two hectares in extent, and about 65 per cent. of them under five hectares. The size of farms declined even more as the result of the *very high birth-rate* and the frequent redistribution of land among inheritors. The dwindling size of the holdings could not be halted by the Land Reform, and could not be made good by the growing intensity of cultivation. The increase in the rural population could not be absorbed either by industry, which developed slowly, or by emigration, which greatly decreased. The high birth-rate contributed to the disguised unemployment, to the dwindling size of farms, and to the growing burden of mortgages for paying off the family.

(4) *The decrease of emigration,* both seasonal and non-seasonal, was one of the greatest blows administered to the Polish peasant. Before the war, and even during the first period after the war, he had both profited by the large remittances sent home by Polish emigrants abroad and been relieved from the constant pressure on the land by the growing rural population. By seasonal emigration, especially to Saxony, he earned wages which eased his position to a large extent. All this ceased, or decreased in great measure, apart from emigration to France, which was of much less importance.

(5) *The price-scissors* between agricultural and industrial products were but an expression of industrial protectionism and the building up of new branches of industry at high cost. Polish *étatisme*, high tariffs, and the cartels which grew under their protection, and also to a large extent social protectionism with its high rates of nominal wages and very expensive social legislation—all these were expressed in a wide opening of the price-scissors which heavily taxed the material situation of the peasant. The Government tried to relieve his burden by grants, credits, and bounties, but only a small amount of what was taken from him was given back to him. The complaints of Polish peasants, which can be read at length in the highly instructive *Memoirs of Peasants* (two series in several volumes were published in 1935-6 by the Institute of Social Economy in Warsaw), allege that they cannot buy enough salt, matches, sugar, or coal, fertilizers or implements, because these are too expensive in relation to agricultural prices.

Writer No. 1 in the second series of the *Memoirs* (vol. 1) explains that before the war with one quintal (100 kg.) of rye he could buy 8 quintals of coal, but now he can only buy 3 quintals.

(6) *Heavy taxation.* In spite of many tax privileges the burden of taxation imposed on the peasantry was much heavier after the war, and this evolution was similar to that of other countries. The main difference consisted in this, that Polish peasant economy, as an economy of very small holdings, was self-sufficient in the sense that the peasant had no real surpluses for the market, and therefore to get some cash his family had to go underfed. His cash earnings were really insufficient to cover his most urgent needs for the market, still less his taxes and public services. Quite a number of public services became compulsory, and a number of duties were imposed by the expanding administration of local government. In the *Memoirs of Peasants* there are many complaints about high postal rates and railway fares, completely unadjusted to the level of peasants' income.

(7) *Disguised Unemployment.* What was called by Mrs. Joan Robinson "disguised unemployment" was the greatest plague of the Polish peasantry. Estimates of the disguised unemployment in the villages varied between one-fourth to one-third of the rural population. But even if we keep to the lowest figure, which seems the more probable, the waste of man-power must be regarded as enormous. We can also gather from the *Memoirs* already quoted certain hints of its magnitude. The writer of Memoir No. 2, holder of a medium-sized farm (30 morgen) had a family of eight adults living on the farm, but work enough for four adults only. The work of the rest could be done without altogether, without any diminution of the annual produce. If he had enough money of his own (not borrowed, since he said it would be too risky to loan money) he might have been able to invest it in improvements and new installations and give real employment to the rest of the family. This last remark is very sensible indeed, because in reality over-population, rural or urban, is nothing but under-capitalization, under-technicalization or under-organization. The term under-capitalization is preferred by the present writer, because it suggests as the remedy not a passive policy of emigration, but an active policy of more capital, better technical equipment, better education and training, and better organization.

(8) The position of the peasant was also affected by the official policy of replacing the private tradesmen, mainly Jewish, by co-operatives and public or semi-public trade agencies. The co-operative movement, which grew rapidly and made impressive progress, was too hastily organized and lacked efficiency. Without doubt the former trade apparatus was in many respects faulty; but the new was no better, and though it had destroyed the old, it had not contributed to an improvement of the agricultural market.

The State Grain Establishment had finally a monopolistic position in the market and succeeded in completely ousting the private market, as the prices became more and more political in character. But the disparity between the retail and wholesale prices and the range of seasonal fluctuations was not smaller, but greater, than in some other agricultural countries.

However, the large price-fluctuations and the great disparity between retail and wholesale prices were also in part due to the lack of distribution plant, such as warehouses and silos, cold-storage and milling equipment. The Government paid great attention to the construction of such facilities, but their development was insufficient. We may also mention in this connection the great cost of agricultural trading implied by bad and insufficient roads.

(9) Another depressing factor was the faulty credit system in agriculture. As already pointed out, the natural course of development for every young credit system is first of all the saturation of the short-term credit market and then a gradual progress through medium-term credits to the capital market with the longest terms. But the young credit system of Poland had not yet reached this stage, and there was no genuine capital market except that provided by the Government. However, the State funds for long-term credits were mostly reserved for land reform or relief measures. But even the small part of the State funds left over for ordinary investment credit was swallowed up mainly by the large estates. The rural borough loan and savings banks had only insignificant credits, and the co-operative societies, although they had larger funds at their disposal than the borough banks, found that these were inadequate for investment. So the demands for medium and long-term credits were met, if at all, through the channels of short-term credit, the most dangerous and harmful way. Besides, the cost of credit of this kind was extravagantly high and, as a rule, usurious. When the Great Depression came, the whole edifice of agricultural credit collapsed altogether, and the wave of defaults and moratoria, afterwards regulated by the laws of conversion, began. The compulsory conversion, although it brought temporary relief, cut the peasant completely off from any credit whatsoever, because distrust regarding the safety of the peasants' credit had spread among would-be lenders.

(10) There was still another factor of great import which in the long run turned out to be against the interests of the peasants, namely, the protection granted to corn prices. In the first period, which lasted until the autumn of 1928, the Government pursued a price policy, called a pro-consumers policy, which tended to keep corn prices if not at a low, at least at a moderate level. This policy greatly stimulated the production of domestic live-stock and favoured not only the workers but also the peasantry at the cost of the agriculture on large estates. To understand this we must bear in mind that the

peasant, whose farms in 65 per cent. of all agricultural holdings consisted of dwarf and small holdings (under five hectares), is a producer of corn for his own needs only, i.e. for his family and livestock. As time went on the number both of people and of livestock increased in relation to the arable area. As the keeping of livestock, especially pigs, among the peasantry made tremendous strides, the demand for corn and fodder grew, and the peasantry became more and more purchasers of corn. The main business of the small farms was the transformation of corn and fodder into terms of livestock. After 1928 and especially after the Great Depression the Government embarked on the policy of protection of high corn prices.

In the autumn of 1928 import duties on corn were introduced; on November 1929 export bounties; in August 1930 State Grain Establishments were put into operation in order to stabilize domestic prices on a remunerative basis by the purchase of grain on the home market; the Union of Grain Exporters was created in order to regulate the volume of export and co-operate with the State Grain Establishment¹; special milling regulations were introduced in order to ensure a larger demand and better prices. All these very costly measures only aggravated the position of the smaller farmers, especially those on dwarf holdings.

One of the writers in the *Memoirs* (No. 4 of the second series), a small farmer near Rzeszów, illustrates this problem by a concrete example:

"A pig gives an increment of its live weight of 1 kg. after having consumed 4-5 kg. of corn, the price of corn being 14 grosze for 1 kg. The cost of producing 1 kg. of live weight amounts to 56-70 grosze. But the current market price of live weight is only 40-50 grosze. Another example is a hen which consumes 50 kg. per year of wheat, which amounts to 10 złoty per year, while the value of the eggs (about two hundred a year) which it lays amounts only to 8 złoty."

This small farmer is really interested in low corn prices by the fact that the corn he produces is consumed by himself, and he very often appears at the market as a buyer of corn.

The peasant was the real ruler in the first period of the parliamentary régime up to 1923. The great political leader of the largest Peasant Party, W. Witos, was during that period twice Prime Minister. In the transition period 1924-6 the political position of the peasantry was already weakened and the third Witos Cabinet overthrown by Piłsudski was an attempt to restore the old rule. Under the Piłsudski régime the political influence of the peasantry was insignificant, one might almost say nil. The Piłsudski camp had followers from many social strata. It started as a movement of

¹ Together they finally founded the Polish Bureau for Grain Export.

the radical intelligenzia and workers, and after its coming to power, large-scale industry and the gentry had linked up with it, expecting from it profits and power. But up to the end of the Pilsudski régime there was no, or at least only a very insignificant, genuine representation of the peasantry.

After Pilsudski's death his successors tried to conciliate the peasantry over the heads of their political leaders, especially Witos, who after imprisonment in Brześć escaped to Czechoslovakia, where he remained until the Germans entered Prague in 1939. The attempt failed, and led to revolts and acts of sabotage. In 1936 a wave of peasants' strikes spread throughout the country, affecting mainly the Central area. The strikes (unique, so far as I know, in modern times) consisted in an organized refusal to provide the town markets with farm products, accompanied by acts of terrorism against the strike-breakers.

The strikes could not, of course, succeed, and were soon broken, but they were an open manifestation of the spirit of revolt against the régime both in the political and the economic domain.

13. LAND REFORM

ONE of the gravest problems confronting reunited Poland was the urgent call for land reform. This slogan swept all Central and Eastern Europe, Russia, Rumania, Czechoslovakia, Hungary, Yugoslavia, Bulgaria, Lithuania, etc., as a result of the new revolutionary and social forces freed from an old outmoded system. But the call for land reform in Poland expressed a really urgent necessity, for the distribution of landed property was out of date so far as the requirements of a modern society were concerned. The agrarian structure was but the remains of an old-time system and of the badly-carried-out abolition of serfdom both in Russia and Austria, with one main aim in view, that of arousing discord between the landlord and the peasant.

The structure inherited in 1918 was characterized by:

(1) A large rural proletariat deprived of any land whatever, amounting to 31 per cent. of the agrarian population.

(2) A large *semi-proletariat*, i.e. holders of dwarf (under two hectares) and small (up to five hectares) farms which together amounted to 65 per cent. of all farms. As the area estimated in Poland as sufficient to support a family varied between four, five, and seven hectares, according to the district and the intensity of cultivation, most of this semi-proletariat was compelled, apart from their farms, to earn extra subsistence from other sources. According to the census of 1921, the numbers of this proletariat were given as 2,111,000 families among the total 3,262,000 farms in Poland. These dwarf and small farms covered an area of 14.9 per cent. of the total agricultural area and 24.9 per cent. of the arable land.

(3) The middle-size farms with an area of between five and fifty hectares amounted to 35 per cent. of all farms, covering 30.8 of the whole agricultural area and 37.6 of the arable land.

(4) The other extreme—the large estate—was well represented in the Polish structure. 19,000 estates¹ of over 100 hectares each covered 43 per cent. of the total agricultural area (with forests) and 27.2 of the arable land. Thus 0.6 per cent. of the whole number of farm holders owned 43 per cent. of the land in agriculture and 27.2 of the arable land.

(5) Another drawback of the Polish structure was the *chessboard*, i.e. the division of small farms into a number of separate parcels, sometimes far away from each other. The chessboard system was a great obstacle to rational farming, resulting in the loss of arable land, time, and energy, as well as making the mechanization of agriculture in even the lowest degree impossible. The percentage of farms on the chessboard system amounted to 46.8 of all farms, 11.0 per cent. of them being divided into six to ten parcels and 6.1 per cent. into more than ten.

(6) The great number of so-called *servitudes*, i.e. easements and services mortgaged on one property for the benefit of another, was another evil hampering rational farming. To these servitudes belonged rights of way for cattle, horses, vehicles, the right to collect timber for building and fuel, the right of pasturage, etc. The servitudes were an especially great hindrance in the former Russian sector. As Tsarist Russia by the decrees of 1861 and 1864 was eager to create sources of discord between the landlord and the peasant, it made great use of servitudes after the abolition of serfdom.

As a whole the agrarian structure was in some respects sounder in the Western regions than in the East. The semi-proletariat was smaller, the middle-class type more numerous, the evils of the chessboard and of servitudes less widespread, over-population less, and the intensity of cultivation higher. The worst structure was that of the Southern regions, especially in the triangle of the Vistula and San.

From the first day of independence, agrarian reform became one of the main pre-occupations of public opinion and the leading social issue. Public opinion was divided not on whether agrarian reform was necessary, for nobody could deny the urgency of the need in the face of the bare facts, but on the questions of its degree, its form, and the time needed for reform.

The landlords displayed great ingenuity in defending their age-old position, playing for time and using every argument against land reform. They were used to all the national arguments in regard to the Eastern provinces; cultural arguments for the defence of old positions of culture and national traditions; military arguments, since self-sufficient small holdings are supposed to be unsuitable for compulsory deliveries in war-time, while large holdings are easily

¹ Without Silesia and the Wilno district.

controlled; class arguments, stating that the division of arable land would result in deficiency of corn for the provisioning of towns; export arguments, that land reform would diminish the surpluses for farm export, etc.

But purely economic arguments were also put forward, and many treatises were published to prove that the issue in question, viz. small holdings versus large holdings, must be answered from a purely "economic" point of view, i.e. the point of view of income, in favour of large holdings. As a matter of fact the last issue, as has been shown by many investigations into Polish conditions, is answered in favour of large holdings if the net income per hectare is taken into consideration, but in favour of small holdings where the gross income is concerned, which means that small holdings, in spite of their lower net profitability, when all factors of production, including labour, are equally accounted for, are able to employ more labour per hectare, and the gross production per hectare is greater. They are contributing more to National Income, of course assuming that their hands can find no employment in secondary industries.

From the legal point of view there were two distinct periods in the carrying out of land reform, the first under the operation of the Land Reform Statutes of July 10, 1919 (and the law for their execution of July 15, 1920, adopted by the Sejm when the Red Army advanced on Warsaw), and the second under the operation of a new Statute of December 28, 1925, which turned out to be the lasting basis of land reform. We will review the main issues in both these periods.

The first issue was the question of confiscation versus compensation for the land taken over for land reform. The first Statute provided for the confiscation of half the estimated land value, while the second provided for total compensation for the land, of which, as a rule, half was in cash and half in Government bonds (partly at par and partly below par). According to these last provisions the settler was required to pay 5 per cent. of the value, and the remainder was credited for forty-one years. The State Land Bank was created to finance the Reform. The value of the land was determined by the agrarian offices, but subject to appeal to the Courts.

The adoption of the principle of total compensation in 1925 necessarily slowed down the process of land reform.

The second question was the scope of the reform in regard to the area to be divided up. Both the Reform Statutes of 1919 and 1925 fixed in the same way the maximum possession excluded from the reform, but the Statute of 1925 defined the area better and made some important exceptions.

In principle the maximum area in 1925 was fixed at 180 hectares of the arable land, with two exceptions; in suburbs, where the area allowed was 60 hectares, and in the Eastern districts (in 1925), where

it was 300 hectares. In these districts the intensity of land cultivation was very low, apart from the fact that the agrarian reform took on a very important national aspect, as the landowners were Polish and the peasants and farm labourers belonged to the Slav minorities.

But important exceptions were introduced by the Statute of 1925, which related to highly productive estates or to estates running plants for agricultural industries, excluding them from reform. The total area excluded by these exceptions may not exceed 550,000 hectares.

The first Statute of 1919 provided for the nationalization of forests belonging to the large estates; the Statute of 1925 excluded the forests altogether from the reform. The Statute of 1925 also excluded orchards from the land reform. Both Statutes also provided for the partition of lands belonging to the State, the Catholic Church, and some public institutions.

The total area available for reform under the provisions of the latter Statute was estimated for 1925 at about 2,800,000 hectares, for 1931 at about 1,700,000 hectares, and for 1939 at about 1,000,000 hectares.

The legal total area available was small, and would have been exhausted within a period of less than ten years, if the pace of land division for the last years had been kept up.

As a matter of fact, the legal maximum possession excluded from reform was rather high under the agricultural conditions of Poland. If a maximum private area of 50 hectares had been adopted, the estimated land reserve available for reform would have risen for 1931 to 3,700,000 hectares, and for 1939 to 3,000,000 hectares.

The third question was that of the rate at which the division of land should proceed. The Statute of 1925 slowed down its speed by providing that in each year for the period of the next ten years a contingent of 200,000 hectares was to be compulsorily divided. If in one year the quota had not reached that figure, the remainder had to be carried on to the next year, to increase still further its yearly quota of 200,000 hectares. Every year the Government had to publish a plan of land division embracing the area to be parcelled out in each district.

But in practice the provisions of the law were only partially carried out. The legal quota was maintained only during the next three years, while after 1928 the area divided was below the quota, in 1931 hardly above half the quota, and in the period from 1932 to 1936 even below half (the lowest level being attained in 1934, when only about 56,000 hectares were divided up).

In the second period the interest shifted from the division of land to the task of integration (the removal of the chessboard evil), the liquidation of servitudes, and land betterment.

While the pace of land division, especially after 1928, was slowed down, the pace of integration, liquidation of servitudes, and betterment of land greatly increased.

Another important issue was: What mode of procedure should be adopted in land division, private or administrative? The Statute of 1925 had adopted as a rule private parcellation under Government control. The landlord whose land had been included in the Plan published in January each year by the Government had to comply with the Plan, but could parcel the land privately provided he fulfilled all the legal requirements. Only when he failed to comply with the Plan could the area provided for division in that year be taken over and parcelled compulsorily. But this was only a threat, rather rarely carried out. By these provisions the landlord could get better prices for his land. In fact, the prices received in the course of parcellation were fairly high, and the whole scheme of land reform turned out to be only a pressure put on the landlords to force them to sell their properties.

The question how to use the available land reserve, whether to create new farms out of it for the rural proletariat, or to give additional lots to the semi-proletariat in order to make the dwarf farms self-sufficient, was answered in different ways during the period up to 1925 and after. During the first period the area divided was used predominantly for creating independent farms, while during the second period the trend shifted more towards increasing the average size of existing farms, either dwarf or small, or even medium-sized.

In spite of all difficulties and obstacles, the work performed by the Polish Land Reform was impressive. Altogether, during the period 1919-38, 2,654,000 hectares were divided up, of which 1,431,000 hectares went to the creation of new farms, 1,004,000 hectares to increase the size of dwarf farms, and 90,000 hectares to model farms and scientific institutions.

The area consolidated by integration amounted during the whole period to 5,423,000 hectares. The regulation of servitudes embraced 280,000 holdings. The land betterment affected an area of 548,000 hectares.

Did the land reform substantially ease the position of the peasant?

An answer in the affirmative cannot be given. First of all, the pace at which land reform proceeded was too slow to make good the effects of the high birth-rate among the peasantry and the pace of family division. If we divide the whole parcelled area by twenty, we get an average area of about 130,000 hectares divided yearly. Taking as a basis five hectares as the size of a self-sufficient farm, we get a self-supporting area for 26,000 families. It perhaps satisfies the land-hunger of about half of the natural increase of the land population, which means that in spite of the reform, the average size of small holdings decreased every year as the result of family division. The pressure of the increasing land population was greater than the easement produced by land reform.

Secondly, we must take into consideration the position of the land proletariat. The farm labourer was employed primarily by large estates, not to any extent by smallholders.

The first Statute gave the farm labourer the preferential choice of taking over the land on which he was formerly employed, while during the second period he was completely excluded from the land allocation, owing to the financial provisions of land parcellation. The farm hands had no money, not even the necessary 5 per cent. of the land value, and after all the landowner himself was allowed to carry out the division of the land among the buyers. Therefore the problem of the land proletariat became really worse in those areas where the large estates were divided up.

Another drawback of the land reform was the great credit burden accumulated on the backs of the settlers, especially during the second period. When the Great Depression came, credit even on easy terms became excessive and frozen. The new settlers were burdened not only by mortgage credit for the acquisition of their land, but also by short-term credits for new implements and building materials needed for the new farm. This want of implements and investment goods was the main obstacle to an adequate fulfilment of the reform. The new settler, when he acquired land, needed, relatively speaking, a large capital for the building of his home and other farm buildings, for implements, etc., but very often he was unable to obtain any facilities in this respect or to utilize the full productive capacity of his land. The lack of sufficient cheap investment credit for buildings and implements was the main handicap to settlement.

Other drawbacks of the land reform were connected with the spread of uncertainty regarding property rights and credit. First of all, the flow of investments and the process of amelioration slackened, since the proprietor was not sure whether his property would be left to him. Credit facilities, although still very inadequate, were further hampered.

From the point of view of the production programme, the reform resulted in a slackening of corn production and the development of livestock. The losses inflicted by dividing up farms of higher technical cultivation into farms of lower technical cultivation were to some extent made good by the rapid rise of co-operative model farming, agricultural education, which was carried on after the war on an impressive scale, and extensive agricultural service given by special instructors.

The land reform will play also an important part in the future, although its scope will be diminished by the fact that only about 14 per cent. of the whole arable land remains in the hands of farms above 50 hectares each. Theoretically we have only 3,000,000 hectares (about 12 per cent. of arable land) which could be divided, if the maximum possession were fixed at 50 hectares.

Much more important in future will be the task of soil and crop improvement, and first of all that of the industrial exploitation of farm products.

Co-operative farming has to be promoted. New schemes for the supply of cheap agricultural implements and fertilizers must be worked out and tractor stations established. Roads, silos, and cold storage plants must be built and farm-trading improved. Mills and plants for processing agricultural products should be created. New means for agricultural medium- and long-term credit must be found out. And the task of agricultural education and training should first of all be substantially enlarged and furthered.

But the real solution of the easement of the peasant's position is the development of secondary and tertiary industries at a pace sufficient to absorb the increasing pressure of the agricultural population.

The history of the Agrarian Reform in Poland has proved this beyond a doubt.

14. AGRICULTURAL PRODUCTION

AGRICULTURAL production underwent certain structural changes; some of these were the outcome of the new frontiers, some were of an international character, and some were due to the land reform.

The position of whole provinces was substantially affected by the change of frontiers. As a rule we may say that the position of the Western provinces was affected adversely; the high level of cultivation had been to some extent lowered, and the yield per hectare of the principal crops consequently diminished. This was due to the fact that Western agriculture had previously had a large and rich market at its disposal, which was afterwards closed, and to the high protective measures previously shared with the agriculture of Eastern Germany.

Quite opposite was the position of the Eastern and Central provinces, i.e. those formerly under Tsarist Russia. Polish agriculture there suffered greatly from the competition of the cheap agricultural production of the vast Russian spaces, and the Tsarist régime did much for the protection of Eastern agriculture under the Russian landlords. The new frontiers contributed greatly to the agricultural development of this part, and there was a large increase in the yield per hectare of the principal crops.

The position of the former Galicia, which under Austrian rule had also suffered from the keen competition of Hungarian crops, changed slightly, but rather for the worse.

Taking the field crops of Poland as a whole in two periods: (i) 1909-13, and (ii) 1934-8, we find the following trends:

(1) The production of crops showed a tendency to slacken off. The wheat crops, as a rule, were hardly sufficient for domestic consumption;

in rye, small surpluses for export were obtainable, and these surpluses were rapidly diminishing in consequence of the rapid increase in the population.

(2) The average yield per hectare of wheat decreased from 12.4 to 11.9 quintals (this decrease was mainly due to the changes in the Western districts); while in rye and barley it remained unchanged; and in potatoes there was an increase (from 103 to 121 in 1934-8).

(3) The area under cultivation was increased for wheat and potatoes (roughly about 20 per cent.) and slightly for rye (roughly by 10 per cent.), while for barley it was practically unchanged. The increase in the area sown was mainly attributable to the expansion in the Eastern and Central provinces.

(4) The production of sugar-beet decreased in yield per hectare as well as in area sown.

But on the other hand the cultivation of market gardens and orchards made great strides, as also did the cultivation of some industrial plants.

However, the most marked development in agricultural production was to be found in the realm of livestock breeding. To measure the full development the numbers of livestock should be compared, not with the pre-war level, but with the immediate post-war period, when great numbers of livestock had been destroyed.

When we compare the pre-war period with the year 1938 we find the following trends:

- (1) A small increase in the number of horses (about 10 per cent.);
- (2) A large increase in cattle (about 20 per cent.);
- (3) An impressive increase in pigs (about 40 per cent.);
- (4) A rapid development in poultry-farming;
- (5) The calamitous fall in the number of sheep during the war had not been made good; the fall amounted to nearly one-fourth as compared with their pre-war level;
- (6) The fisheries were idle, in spite of good natural conditions.

The number of dairy produce factories and the amount of dairy produce increased rapidly.

The rapid shifting of interest in Poland from the production of crops to the breeding of animals was the outcome of many factors; the change in international markets; which still remained open for livestock but were already closed for grain; the change in the food habits of the population, the elasticity of consumption being much greater in animal food than in the produce of crops; finally land reform, since the smallholdings were more suitable for intensive livestock breeding.

15. PLANS FOR THE DRAINAGE OF THE POLESIAN MARSHES

THE pressure of the surplus agricultural population and the insufficiency of the area made available for land settlement by land division very soon brought the question of improving large areas of the Polesian Marshes to the front among great investment schemes. The Polish Government called on the League of Nations to draw up a report on this matter in order to prepare the ground for large-scale international investments.

A special Committee of Experts studied the problem, and the League of Nations Advisory and Technical Committee for Communications and Transit presented a special Report¹ in January 1927, which was communicated to the Council and Members of the League. Unfortunately, no practical steps were taken to carry out its suggestions and advice.

We have seen that in 1939 the whole area available for settlement from further land division was about 1 million hectares on the basis of the Land Reform Act of 1925 and 3 million hectares on the basis of the maximum amount of 50 hectares allowed for one farm. But the total area of marshland in Polish Polesia available for land settlement, as estimated by the League Committee, amounted to 1,676,000 hectares, which opened up prospects for large-scale land settlement in the over-populated areas of Central Poland.

Polish Polesia is a large territory, situated east of the town of Brest on the Bug. The Committee gives the area as about 4,227,000 hectares and its population in 1921 as about 880,000, amounting to 21 inhabitants per square kilometer, whereas the density of population of Poland as a whole was at that time 70 inhabitants per square kilometre. The area of marshland was estimated by the Committee of the League of Nations at 1,676,000 hectares, or 40 per cent. of the total area, of which 1,500,000 hectares were in the basin of the Pripiet, 132,000 hectares in the basin of the Niemen Szczara, and 44,000 hectares in the basin of the Bug.

The Committee of Experts did not work out a concrete scheme, but merely expressed its opinion as to the feasibility of the reclamation project. The Committee called the project a gigantic one, and stated that the question of its financial possibility could not be answered until full information had been obtained and a detailed scheme drawn up. It recommended, however, the continuance of preliminary studies and surveys, and expressed its belief that the drainage of the marshes would be a remunerative enterprise.

Its rough estimates put the approximate cost of the complete work at about 450 million zloty, equal, at that time, to about 50 million

¹ *Note by the Committee of Experts on the Drainage of the Marshes of Polesia.*

dollars. This sum included, for the improvement of navigable rivers: 80 million zloty for improving the principal rivers, navigable by rafts; 45 million for the improvement of other water-courses which were not navigable either by river craft or by rafts; 48 million for drainage of canals; 23 million for secondary and third-class drainage; 225 million for the drainage of 1,500 hectares and their preparation for intensive cultivation at 150 zloty per hectare. The whole sum represented 421 millions, afterwards rounded up to 450 millions for the complete work.

The Committee regarded the financial return as practically safeguarded from many points of view, even from that of strict rentability of land affected directly by the improvement.

Given . . . "a basic price of 100 zloty per hectare for undrained marsh and 400 zloty for drained grass-land, the increase in value is 300 zloty per hectare, which is sufficient to cover the cost of drainage, if it is assumed that the above-mentioned estimate of 450,000,000 zloty would be enough to bring about a considerable improvement in 1,500,000 hectares of land." (p. 13.)

The report goes on:

"If it is agreed that the cost of improving navigable waterways should not be included in this connection, it would be sufficient to improve 1,120,000 hectares to cover the cost of the general scheme.

"The reclamation of the marshes as a whole would therefore seem *prima facie* to be financially remunerative.

"Yet even if it were found on a close study of the question that the general drainage of an area of one million to one and a half million hectares would not be entirely remunerative *per se*, the project should not necessarily be abandoned.

"In point of fact, our estimate takes no account of improvement brought about in land situated outside the area but directly affected by the work through the lowering of the water-table in that region.

"Again, no account has been taken of less favourably situated areas, the drainage of which would be more costly and might therefore be omitted.

"Lastly, the main expenditure would be incurred in the construction of secondary and third-class drains, the cost of this being estimated at 225,000,000 zloty, and this would largely be done by the settlers themselves in their spare time.

"This is equivalent to an expenditure of 150 zloty per hectare, and on present evidence it would seem quite possible to obtain satisfactory results for less.

"The use of machinery should lower cost prices, and the construction of primary drains should in itself bring about a notable improvement in crops.

"Even if the reclamation of the marshes as a whole were not directly remunerative, there are undoubtedly large portions of the scheme which would be so, and for each of which a strictly balanced budget could be drawn up."

The Committee also drew attention to "indirect benefits which must also be considered and estimated", the gigantic analogous work on the Zuyder Zee by the Netherlands Government having been decided on mainly by reason of these indirect benefits.

The Committee recommended that the work be entrusted to a mixed organization comprised of the State and Local Governments and Syndicates.

The Government followed the advice of the Committee, and by the decree of the President of the Republic of February 15, 1928, set up a special Bureau for the Improvement of Polesia. The task of the Bureau was to work out a scheme, both technical and financial, for the improvement of Polesia, but it might also be entrusted by the Minister of Public Works with the task of carrying out restricted schemes in the area defined. This area comprised the whole wojewodship of Polesia and also some parts of the wojewodships of Wolyń, Białystok and Nowogródek. Thus the area contained, not 4,227,000 hectares, but more than 5,500,000, and the marshland to be improved covered not 1,676,000 hectares, but about 1,800,000.

The detailed scheme had to be based on research into many factors, the physical and chemical characteristics of the soil, the climatic conditions, and so on, and partly on the experimental carrying out of partial schemes. The cost of the scheme was preliminarily fixed at 6,000,000 złoty.

The Government estimated the time needed for the completion of the work at four years. The Bureau worked very hard and published some reports on its researches¹), but the scheme, so far as I know, was not completed.

The plan for the improvement of Polesia is one of these major tasks which merit consideration as an international undertaking to be carried out by international co-operation and international investment funds. Work on it should be resumed after the war. The land of Europe is too valuable to be allowed to be left as a dead area spreading disease and poverty instead of contributing to progress and wealth.

16. THE POLISH WORKER

THE Polish worker as a type is very well known all over the world. Before the First World War he was an important factor in German agriculture and mining. Since the war he has contributed greatly to

¹ *Travaux du bureau pour l'assèchement des marais de Polesie polonaise.*

the productivity of French farms and mines. He has distinguished himself also in the U.S.A. and Canada by his endurance, ability, inventiveness, and willingness to work.

Polish engineers, craftsmen, and technicians are also well known, especially in the East. They very often occupied high positions in Tsarist Russia.

The same qualities which Polish workers show abroad, they show likewise in their own country. But as the productivity of the worker depends not only on his moral qualities, but also on his acquired skill, which can be gained only by practice in highly mechanized factories, and on the degree of general education and of the technical equipment of factories, the productivity of Polish workers was very often lower in Poland than in Western countries.

During the Twenty Years both the education and the skill of the workers decidedly improved. Their productivity advanced greatly owing both to the process of rationalization and to mechanization. This was especially noticeable during the Great Depression. Here are some figures.

The productivity of the coal miners in Poland per worker per day rose (in tons) from 1.14 in 1913 to 1.27 in 1928, 1.70 in 1934 and 1.82 in 1937. In 1937 it was greater than the productivity of the English (1.2), Belgian (0.8), French (0.8), or German (1.5) worker.

The productivity of workers in large and medium industries rose from 1928 (=100) to 104 in 1930, 108 in 1932, 120 in 1934, and 129 in 1937.

During the period between the censuses of 1921 and 1931 the percentage of the whole population unable to read or write declined from 33.1 to 23.1 per cent., and the percentage in the towns from 18.7 to 12.2 per cent.

Poland has achieved great results in her educational development. She had some 3.2 million pupils in her elementary schools in 1923, and 4.9 million by 1939, with a school attendance of 91 per cent. Great strides were also made in technical education and training.

(a) SOCIAL LEGISLATION

In the Twenty Years Poland built up a most progressive and comprehensive body of social legislation, hardly surpassed by any other country in the same stage of economic development. Social legislation was undertaken from the very beginning of Independence, as the first Polish Cabinet, headed by M. Moraczewski, was a Socialist one.

Let us survey the various stages of development in social legislation.

The *working day* of eight hours and week of forty-six hours in mining, industry, commerce, and transport were introduced by a decree of November 23, 1918, only a few days after the Day of Independence.

These general provisions were retained in the Act adopted by the Sejm on December 18, 1919, but they were made more elastic and practical, since in some cases (*force majeure*, in undertakings working continuously, in transport and sanitary establishments and others of social importance) and in some industries of seasonal character or closely linked with world markets, longer working hours might be adopted on certain conditions and by agreement with the Factory Inspection authorities. In case of national necessity the Cabinet could prolong the working hours, and after the passing of the Act of November 7, 1931, it might also reduce them. The rates of pay for overtime were fixed at a higher level.

The Government made some use of its power to lengthen working hours, especially in Upper Silesia, where the conditions of labour were closely connected with those in other parts of Silesia; but in other instances they shortened working hours. In 1937 the Government curtailed working hours in coal-mining. The hours of underground miners working in a temperature of over 28°C. were reduced to 6 a day and 36 a week; to 7 a day and 42 a week for other particularly strenuous or unhealthy conditions; and to 7½ a day and 45 a week for all other persons permanently employed underground. The general lengthening of working hours came about only in 1933, when the Act of March 22 provided for a 48-hour week, but this was due to the pressure, which was already being felt, of Germany's armament programme.

Factory inspection was introduced by the first Cabinet as early as January 3, 1919, by a decree of that date. A comprehensive body of labour administration was set up under the Minister of Labour, with a General Inspector, Inspectors of Province, District Inspectors, and Special Inspectors. They were to control and supervise all measures and regulations for the protection of the life, health, comfort, and morality of factory workers, to ensure strict observance of the legal provisions concerning hours of work, the employment of women and juvenile workers, social insurance, etc., to mediate in cases of industrial dispute, to give their views on what provisions should be made when a licence for the opening of a new establishment was applied for, etc. They had powers not only of control and supervision, but also of execution and even some minor judicial power to impose penalties for the non-compliance of employers with the social legislation. The functions of Factory Inspection grew rapidly, and were codified by the decree dated July 14, 1927, on the general lines already indicated.

The legal protection of workers and staff in their contractual relationship to employers was safeguarded by two Presidential decrees of March 28, 1928, one applying to manual and one to non-manual workers, which included a number of compulsory provisions. According to these, every contract made between an employer and an employee must include conditions affecting terms of notice, wrongful dismissal

and termination of employment, payment in case of illness or disablement, the manner of payment of wages and salaries, the rights and duties of both parties during working hours, etc. The period of notice for manual workers was as a rule two weeks, for non-manual workers three months.

Holidays with pay were introduced by the Act of May 16, 1922, on a rather extensive scale. The Act entitled the workers to an annual eight-day holiday with pay after one year's work, and one of fifteen days after three years' continuous employment, and salaried employees to two weeks after six months' employment and a month after a year's employment. Small changes reducing the privileges of workers by including Sundays or other non-working days at the beginning or end of the holiday period and giving power to impose exceptions to the law and even to suspend its obligatory force for one year were made by the decree of March 22, 1933.

An extensive scheme of *compulsory social insurance* was set up, with a network of institutions for social services.

The *Compulsory Health and Maternity Insurance* scheme, already known in some parts of Poland, was introduced as a general institution by the decree dated January 11, 1919. A Sickness Benefit Fund was founded. The scheme was worked out by the Act of May 19, 1920, amended by the Social Insurance Act of March 28, 1933, etc. The main conditions, which remained unchanged, provided for the compulsory health insurance of all manual and non-manual workers (outdoor workers, domestic servants, etc., if their wages or salaries did not exceed a certain level—latterly 725 zloty per month). Insured persons were entitled to certain medical benefits from the first day of their sickness, but not for more than 26 weeks at any one time, and their dependents for not more than 13 weeks in any one year. The contribution amounted to 4.6 per cent. of wages for manual workers and 5 per cent. for clerical staff, half of which was paid by the employers.

The first steps towards *Unemployment Insurance* were taken by the decree of January 27, 1919 (afterwards several times amended), which introduced Employment Exchanges, and by the Act of November 4, 1919, which provided for public assistance to the unemployed. But real unemployment insurance for manual workers was introduced only by the Act of July 18, 1924, amended in 1933. Unemployment insurance for salaried employees was regulated by the decree of November 24, 1927, and amended by further enactments. The insurance for manual workers covered all those over 18 working in an undertaking employing five or more people, with the exception of agricultural workers and domestic servants. Benefit was paid for a period not exceeding 13 weeks. The contribution was 2 per cent. of wages, part of which was paid by the employers.

In October 1933 the Unemployment Fund was amalgamated with

the Labour Fund created in April 1933. The latter took over all the work connected with unemployment insurance.

Insurance against industrial accidents and occupational diseases was already known in nearly all parts of Poland, but was developed and widely enlarged. Poland ratified the International Labour Convention concerning workmen's compensation for accidents on November 3, 1937. A State general compulsory accident insurance scheme was in operation which provided for accident pensions to workers, domestic servants, and other employees incapacitated by industrial accidents, if their earning capacity was reduced by at least 10 per cent.

Compulsory Disablement, Old Age, Widows' and Orphans' Insurance existed in some parts of Poland in regard to employees in some special industries. It was made general for all employees by decree of November 24, 1927. It was also extended to manual workers. An insured person who was disabled, irrespective of the cause of disability (if not the result of an industrial accident or occupational disease covered by other schemes) or who attained the age of 65 (the age limit might be reduced to 60 for men and 55 for women) and had contributed to the fund for a certain period, was entitled to a disablement or old age pension. The rate of contribution varied between 5.2 and 8 per cent. of wages and salaries, 40 to 60 per cent. of which was paid by the employees and the remainder by the employers.

Extensive legislation restricting the employment of *children, juvenile and women workers* with maternity protection was brought into force, and many international conventions in this respect were ratified by Poland.

Generally speaking, Poland ratified altogether twenty conventions drafted by the International Labour Office in Geneva, and accepted quite a number of its recommendations. Further, it co-operated actively with the I.L.O. and took a great interest in its work.

We thus see how wide was the scope of social legislation in Poland. It resulted in a decided improvement in health and sanitary conditions, and the increase in mean expectation of life was to some extent the outcome of this legislation.

But it had also some drawbacks. It resulted in the setting up of a large body of bureaucrats and in heavy burdens being imposed on industry on the one side and on consumers' income on the other. Both workers and employers complained bitterly, the employers because of the sometimes extravagant claims for protection, of their high rates of contribution, and the great amount of control and the statistics to be furnished in this connection; the workers because they thought the social services rendered did not give full remunerative value for their contributions. There was a fair amount of red tape in the social services, which ate up a certain amount of the contributions,

but during the last years a decided improvement in this regard took place.

The large capital funds collected in the Insurance institutions, especially in the departments for Old Age and Disablement Insurance, were during the last years of the period under review borrowed by the State, which ended by imposing a strict control over the institutions concerned. This, however, rather hampered the building-up work of extensive social improvement, which might have been undertaken with the large funds that were accumulated in the institutions.

The large body of social legislation was to some extent out of touch with the real conditions of life in Poland, and the claims for sanitary and health provisions in factories were extravagant compared with the general environment. The contrast between the provisions of social legislation for industrial workers and the conditions of work of craftsmen or small peasants was increased by the scope of the social legislation. The small peasant who worked on his farm for twelve or more hours a day without any insurance whatever resented the fine and progressive social protection, which contributed to the widening of the so-called "price-scissors" (between industrial and agricultural products).

The social bureaucracy already referred to was in a way connected with this new brand of legislation introduced at one blow without any genuine historical development. The legislation did not develop gradually, but was suddenly brought into being, and consequently the experience necessary for dealing with it was lacking.

We may distinguish certain periods in the social legislation and the apparatus for social services, roughly speaking before and after 1926. During the times of parliamentary government the apparatus was mainly in the hands of the Socialist Party and the Trade Unions. During the Piłsudski régime, the administration was taken out of the hands of the Trade Unions and Socialist leaders by the State authorities, and self-government was considerably restricted. At the beginning the efficiency of the apparatus benefited by the change-over, but as time went on the new administration also lapsed into the stranglehold of red tape, and deteriorated owing to that very lack of self-government and effective criticism which is supplied by a sound opposition.

The main structure had already been built up during the period of parliamentary government. The body continued to develop, but it tended at times to overgrowth. In Piłsudski's time a substantial reform in the comprehensive social legislation took place. This consisted in the completion of some institutions already introduced, such as the disablement and old age insurance schemes for workers; but the greatest emphasis was laid on contracting the scope and lessening the cost of social insurance, and on the readjustment of social protection to new conditions.

The working week was extended from forty-six to forty-eight

hours ; holidays with pay were slightly cut ; the scope of unemployment insurance and unemployment benefits was restricted ; the new division of rates of contribution as between employers and employees inclined to favour the employers. On the other hand, as already pointed out, the working week in coal-mining was shortened, and new schemes of disablement and old age insurance introduced.

But the most important change was the complete financial control exercised over insurance institutions, which deprived them of any freedom of investment for their funds, which were directed into the channel of Treasury bonds, and their administrative control under government commissioners, which deprived them of self-government.

The budget for social insurance schemes of all kinds continued to grow rapidly until 1929, then rapidly declined, reaching its lowest level in 1933 with a slight recovery later on. The total revenue rose (in million zloty) from 273 to 649 in 1929 ; it fell to 474 in 1934 and rose to 566 in 1937. Even greater changes occurred in the expenditure, which increased from 242 in 1925 to 601 in 1930 ; fell to 346 in 1934 and recovered to 430 in 1937. The total social budget, estimated by revenue, amounted in 1937 to nearly one-fourth of the whole State budget.

(b) COLLECTIVE AGREEMENTS

THE counterpart of cartels and syndicates in the commodity market were the Trade Unions and other registered labour federations in the labour market, and rates of wages and other labour provisions were decided upon jointly with the employers' organizations through the medium of collective agreements. The free labour market disappeared even before the free commodity market in industry yielded place to monopolistic agreements by cartels and syndicates.

Collective agreements were much favoured by the Government, and they very soon assumed a legal status and afterwards a compulsory character, since the new social legislation tended more and more to the extension of this institution under compulsory Arbitration Boards.

In agriculture, as early as August 1, 1919, by an Act of that date, all disputes between workers and employers were to be settled by collective agreements. The Inspector of Agricultural Labour invited both parties to settle their disputes with his assistance as Conciliation Officer, or to send representatives to set up a Conciliation Commission. When this Commission failed to bring the parties to an agreement, the case proceeded to the Arbitration Commission set up by three to five representatives of the employers and the same number of workers under a Chairman mutually agreed on by both parties. If they failed to reach an agreement, he was appointed by the Minister of Labour. The decision of the Arbitration Board was binding on both parties.

The Act of July 18, 1924, further enlarged the powers of the Government in relation to arbitration in agriculture, and made arbitration procedure compulsory. When both parties refused to nominate representatives to the Arbitration Commission an Extraordinary Arbitration Commission could be set up, which instead of representing the parties was to be composed of three representatives of the Government. The award promulgated by this Commission became binding on both parties, but for not more than one year, and individual contracts less advantageous to the workers were invalidated.

Similar institutions were introduced by the Decree of October 27, 1927, concerning the Arbitration Boards for industry and commerce, and were afterwards amended and promulgated by the notification of April 20, 1937.

The Minister of Labour was given power to declare generally binding in whole or in part any agreement which was of paramount importance to the branch of production concerned throughout the territory covered by the agreement.

Furthermore, the Minister of Labour was given power to set up an Arbitration Board to deal with the dispute and to regulate the conditions of work in the undertakings concerned, but only in case of serious industrial disputes involving the economic life of the country. Such a Board was composed of representatives of employers and workers under a Chairman appointed by the Minister of Labour. The award was identical with that of a registered collective agreement, and could be extended by the Minister of Labour.

The practice of conciliation and arbitration spread rapidly, and the Government assumed wider and wider control over wages in large-scale industry through the intermediary of Factory Inspectors and Arbitration Boards. Free wages yielded place to controlled wages, while the part played by the Government became increasingly important. This evolution was not peculiar to Polish economy, since it but reflected the general trend all over the world.

(c) EMPLOYMENT, UNEMPLOYMENT, AND STRIKES

THE number of workers employed in industry grew until 1929, when it reached its peak, then declined rapidly and steadily until 1932, afterwards recovering, but not reaching the 1929 level until the first half of 1939.

Taking the number of workers employed in industry in 1929 as 100, the number in 1939 (first half) was 102.0 (in 1938, 101.6); but the index of the number of total hours worked in industry was only 97.7 (in 1938, 97.8). The lowest figures of employment by number of workers were 62.3 in 1932, and 56.9 by total hours worked in the same year.

The index of recovery in employment in the years 1929 to 1938 was much on the same level as that for the world in general excluding Soviet Russia (taking the total hours worked in world industry in 1929 as 100, the index in 1938 was 98).

In 1929 the number of workers in large- and medium-scale industry amounted to 858,000, of whom 154,000 were employed in mining, 60,000 in foundries, 635,000 in manufacturing industries, and about 7,000 in electric power plants and waterworks. In the manufacturing large- and medium-scale industries the bulk of the workers were employed in the textile industry (163,000), metal industries (149,000), stone, glass, and ceramic industries (67,000), foodstuffs industry (66,000), timber industry (56,000). Next in importance were the building and chemical industries.

The scourge of unemployment, in spite of the recovery after 1933, was aggravated more and more each year. It is very difficult to ascertain the correct scale of unemployment in industry, since the registration by labour exchanges was incomplete. All we can say is that the level of unemployment was, relatively speaking, extremely high, and aggravation of the position was shown even by the registers of labour exchanges.

The number of registered unemployed increased from about 129,000 in 1929 to 347,000 in 1938.¹ The percentage of unemployed rose from 7.9 in 1928 to 12.7 in 1938. From 1935 the percentage was based on the number of persons covered by compulsory social insurance schemes.

The explanation of the fact that the size of unemployment in 1939 greatly increased in relation to 1929 while the same level of employment was achieved, lies in the very high birthrate, the decline in emigration, and the constant influx of agricultural population from the country to the towns.

The constant pressure of the population on the labour market was not expressed by lowering the rate of wages, since these were fixed by a special machinery and were safe from competition. This resulted in the creation of a specially privileged position for workers in employment in relation to those who were unemployed. It resulted also in a lowering of wages in all those factories, small industries and handicrafts or domestic services where wages were free from the machinery of collective agreement and arbitration.

The constant high pressure on the labour market gave a special aspect to the problem of strikes. How could workers strike when for every worker there was easily found a substitute ready to work for a much lower wage? The more intense the pressure on the labour market, the more did strikes develop new forms. In later years they took the form of the so-called "strikes of occupation" (sit-down strikes), i.e. the strikers took possession of the premises and prevented anyone else from working in the factory, mill, or office. This form was

¹ *Year Book of Labour Statistics*, 1940. I.L.O.

known in Italy before Mussolini's *coup d'état*. It was a terroristic form of strike, which, according to the judgment of the Supreme Court, violated the rights of property. The Government, especially in 1936, fought against strikes of this form, sometimes using very drastic means, but very often it had to ignore them.

The greatest wave of strikes was in 1923 during the Right Centre Coalition, with 849,000 strikers and 6,379,000 lost working days. During the Pilsudski régime the wave of strikes substantially diminished. During the Great Depression their number was insignificant. Great outbursts of strikes appeared again after the death of Pilsudski in 1936 (675,000 strikers and 3,950,000 lost working days), but thereafter they rapidly declined.

(d) WAGES AND THE STANDARD OF LIVING

THE average real wage rate per hour in mining and medium- and large-scale industry was, compared to other countries on the European continent, fairly advanced. According to the *Year Book of Labour Statistics* (1940) issued by the International Labour Office the rate amounted to 1.01 zloty in 1929 and 0.78 zloty in 1938. At the same time the average wage rate in Germany amounted to 85.3 Rpf. and 67.9 Rpf. respectively. But although the rate of exchange was 2.12 zloty to one mark, the purchasing power of the Polish zloty was but little less than that of the German mark, especially in regard to food and more so after 1933 (Hitler's advent to power). In 1929 1 zloty earned per hour by a Polish worker was more or less equivalent in food to 85 Rpf. earned by a German worker; the difference in favour of the German worker was insignificant. In 1938 the small difference was already in favour of the Polish worker.

It is extremely instructive to compare the movement of wages in both countries over the period 1929 to 1938, Germany being a totalitarian State with a high degree of control over wages and Trade Unions, and Poland a non-totalitarian country with but a partial and not really efficient control of wages.

During the Weimar Republic the level of nominal wage rates fell by 17 per cent. between 1929 and 1933; during the Nazi régime, up to 1938, it was practically stabilized (it rose by 1 per cent.). The German worker was not allowed to make use of this recovery; his total (weekly or monthly) earnings were increased by the increase in his working hours, but the rate remained unchanged.

The Polish worker suffered more during the period 1929 to 1933, losing 23 per cent. of his nominal wage rate. He lost a further 10 per cent. (1933=100) during the period of stagnation from 1933 to 1936, but during the period 1936 to 1938 he recovered the whole loss suffered between 1933 and 1936.

But when we compare the movements of real wage rates we get quite another picture.

From 1929 to 1933 the German worker gained 4 per cent in real wages, losing about 7 per cent. from 1933 to 1938. The Polish worker gained 15 per cent. from 1929 to 1933 and about a further 12 per cent. from 1933 to 1938. Altogether the index number of his real wages was in 1938=127 (1929=100), while the index number of the German worker was 98.

But was the Polish worker better off than the German worker from the point of view of total earnings? Not altogether. His total (weekly or monthly) earnings depended not only on rates but also on working hours, and in this respect the German's *quantitative recovery* provided him with longer average working hours.

Unfortunately there are no data available for Poland in the above-mentioned *Year Book of Labour Statistics* from 1929 to 1933, but only for the period 1932 to 1937.

During this period weekly nominal earnings in industry in Poland fell by 1 per cent., and weekly real earnings rose by 19 per cent.

In Germany during the same period the index number of nominal weekly earnings in industry, mining, and transport rose from 67 to 81, and of weekly real earnings from 85 to 99.

From the point of view of real earnings the Polish worker was slightly better off than the German worker during this period, but he was worse off from the point of view of nominal earnings.

In reviewing the changes in wages we must remember that the cost of living index number fell in Poland to a degree hardly surpassed by any other country¹; that is, from 1929 to 1936 it fell from 100 to 58, recovering to 61 by 1938, while in Germany the lowest figure was 77 in 1933, and in 1938, 82.

Now let us see what were the absolute earnings of a Polish worker in zloty, bearing in mind that 1 zloty had a consumption capacity of about one shilling in Great Britain. We have statistics of weekly wage earnings in the large- and medium-scale industries, which embraced about 638,000 workers. These workers generally were better off than the workers in small industries, handicrafts, or agriculture.

In 1938 9.4 per cent. of all these workers earned less than 10 zloty a week, 34.1 per cent. less than 20 zloty, 59.6 per cent. less than 30 zloty, 77.4 per cent. less than 40 zloty, and 87.0 per cent. less than 50 zloty. Only 10.4 per cent. of the workers earned from 50 to 80 zloty a week, and 2.6 per cent. over this sum.

We thus see that the majority of Polish workers (about 60 per cent.) in the large- and medium-scale industries earned less than the rough equivalent of 30s. per week.

¹ Of all the countries embraced by the statistics of the I.L.O. the figures were surpassed only by the Netherlands Indies and in one or two points by Lithuania and Bulgaria.

We have some insight into the family budgets of workers in Warsaw in 1927. 66.2 per cent of the expenditure of a typical worker's budget, in a family consisting of four persons, went on food, alcoholic beverages, and tobacco, 6.4 per cent. on rent, 4.5 per cent. on fuel and light, 10.9 per cent. on clothing, footwear, etc., 3.6 per cent. on cultural needs and education, 3.0 per cent. on insurance and taxes, 5.4 per cent. on other things.

The low standard of living can be seen in the high percentage spent on food, beverages, and tobacco. When we compare the family budgets of workers in other countries (the figures can serve only as illustrations, since international comparisons of figures are scarcely representative and are collected by varying methods) we see that the percentage amounts to 46.6 per cent. in Germany, 54.7 per cent. in Czechoslovakia, 59.6 per cent. in Belgium, 40.2 per cent. in Sweden, and only 36.7 per cent. in the U.S.A. But we must also bear in mind that the Polish worker's expenditure on rent was very low owing to the fact that they lived mostly in old houses whose low pre-war rents were stabilized by the so-called protection of flat-dwellers (rent restriction).

17. FOREIGN LOANS

LONG-TERM loans issued abroad were granted chiefly to the Polish Government or other public authorities, to the local governments, to State-owned banks, and to enterprises or semi-public institutions under State guarantee. Strictly private foreign issues were rare and insignificant in size. Even when we take such issues as the Polish Industrial Credit Association in Warsaw, the two issues of sterling bonds carrying interest at 7 and 8 per cent. per annum were guaranteed by the Polish Government. The same applies to the dollar issue of 8 per cent. mortgage bonds of the Land Credit Association of Warsaw, or to the issue in Sweden by the Polish Telephone Joint-Stock Company, or that to the cotton mills of Scheibler and Grohman in Łódź, or that to the Peace Foundry in Silesia, all guaranteed by the Treasury. It may be stated generally that foreign long-term loans were granted mainly to the Government, while private economy received short-term credits.

To some extent there also followed from this the division of domestic credit and capital apparatus into two fields, one the field of short-term credit supplied by the private banks, the other that of capital, supplied by the Government. The confinement of the main influx of foreign lending to the Government was a very restrictive factor in regard to the scale of capital influx.

Poland took but a small part in the short boom in the foreign capital market. It is a well-known fact that the peak of foreign lending was almost confined to the period 1924-30. In the first half of this period Poland had neither a balanced budget nor a stable currency, as she was

suffering from the setback of Grabski's unsuccessful attempt at reform. There was also another reason. In the middle of 1925, Germany started a tariff war with Poland, and waged a strong propaganda campaign for the revision of the frontiers of the so-called Corridor, the German propaganda and news services describing unrest in Poland and unsettled foreign relations, thereby creating an important obstacle to the flow of credit to that country.

Poland was more or less debarred from access to the great financial centres. The City of London insisted on the Polish Government addressing itself to the League of Nations and accepting a League Loan similar to those granted to Austria (1923), Hungary (1924), Greece (1924 and 1928), and later to Bulgaria (1926 and 1928), Estonia (1927), and Danzig (1927). The Polish Government refused to accept League Loans for various reasons. First of all, it resented being treated as an object of international policy and coming under the supervision of an International Financial Commission under a Commissioner-General resident in the country and interfering in its economic affairs. It was anxious to preserve a full measure of political and economic independence, knowing that these are strictly interconnected. But what was perhaps even more important, it was afraid of the political pressure which might be put on Poland in connection with Germany's claims for a revision of the frontiers.

Thus Grabski declined any offer of a League Loan, and in 1924 embarked on a monetary reform with the means at Poland's own disposal, though without success. After the failure of the first reform the same issue was declined by Marshal Pilsudski, but as economic conditions had improved and were stabilized, the budget had been balanced by Poland's own efforts and the currency practically stabilized for nearly two years, the Government was able to issue a first large loan which opened the credit market in the autumn of 1927 and was known as the Stabilization Loan (see chapter on the Stabilization Plan).

This loan was a key to other smaller loans granted to municipalities, State banks, and State enterprises, but altogether on a small scale.

The Polish Government made in all four great foreign bond issues:

(1) In 1920 a 6 per cent. dollar issue of about 20 million dollars, subscribed mainly by Polish emigrants for needs in connection with the Russian war and with reconstruction.

(2) In 1924 a 7 per cent. Italian Tobacco Loan of 400 million lire, issued by the Banca Commerciale Italiana and guaranteed by the Italian Government, for the purpose of purchasing private tobacco factories and the establishment of the new Polish State Tobacco Monopoly.

(3) In 1925 an 8 per cent. dollar loan, issued through Dillon, Read & Co., for the nominal sum of 25 million dollars, for the formation of a State Economic Fund (the building of railways, industrial enterprises, etc.)

(4) In 1927 a 7 per cent. Stabilization Loan, issued for the nominal sum of 62 million dollars and £2 million sterling.

Altogether the outstanding sum of the Bonds issued by the Polish Government amounted on April 1, 1937, to 559 million zloty, (about 100 million dollars). Besides these, the Government was granted political loans or loans in connection with the lease of the Match Monopoly (a 7 per cent. 6,000,000 dollar loan in 1925 and a 6½ per cent. 32,400,000 dollar loan in 1930) or with other concessions.

The loans granted to local governments were small, the largest being the 7 per cent. 10,000,000 dollar issue of Warsaw in 1928 and the 7 per cent. 11,200,000 dollar issue of the Province of Silesia in the same year. Taken together, the sum of all foreign bonded loans granted to Polish municipalities, including also the pre-war loans which had been converted, amounted in 1935 to 181·2 million zloty (a little more than 30 million dollars).

The total of foreign mortgage and other bond issues of credit associations and industrial enterprises, including those previous to the war which had been converted, amounted in 1936-7 to 273 million zloty.

When we compare this with the flood of capital which poured into Germany after the war, we see how trifling was the capital invested in Poland.

The total amount of long-term loans granted to Germany during the period from 1924 to June 30, 1931, was 9,545 million marks, which, when converted at the rate of $\text{Rm. } 20\cdot43 = \text{£}1$, was equivalent to £465 million sterling.¹

Of the total of Rm. 9,545 million, State and municipalities swallowed 1,919 million, public institutions 1,385, private borrowers 3,592, municipal banks 250, the Dawes and Young loans 2,399 million.

American capital heads the list of lenders, granting to Germany about 55 per cent. of the total sum loaned; Holland occupied the second place, and Great Britain a close third, each representing about 12 per cent. of the total.

Besides, there was an enormous flow of short-term foreign credits and loans to Germany during the same period, the amount in July 1931 being approximately £585 million sterling, most of which was later frozen.

The tasks of building up a new defence industry and manufacturing armaments, of reconstruction, and of creating the internal organization and apparatus of the new Polish State were not lightened by the flow of new investment loans from abroad.

Poland was one of the countries most neglected by foreign financial centres; this neglect, however, was shared to a large extent with the whole of East-Central Europe.

¹ *The Economist*, January 23, 1932, Reparations and War Debts Supplement.

18. MUNICIPAL DEVELOPMENT

EVERYONE visiting Poland after an interval of a few years was astonished to notice the remarkable improvement in the general appearance of the towns and cities. This was true not only in regard to the first post-war years, when many Polish towns rose from the ashes of war-destruction (as, for instance, Kalisz, completely destroyed as a reprisal by the Germans), but also in later years, when the task of reconstruction had long been completed.

In the early years there was an acute shortage of housing accommodation, and the Government had to introduce a general control of housing and flat rents. The so-called "Law for the Protection of Tenants" first introduced in 1918 and many times revised¹ controlled the use of all housing accommodation and kept rents at a very low level, and as inflation progressed they became more and more nominal, sometimes even falling below the cost of the current expenses connected with the house.

This legislation, which remained in force too long, proved somewhat harmful to the private building industry and hampered its development for nearly a decade.

In the early years building activity was confined to the reconstruction of destroyed and damaged buildings, and this was facilitated by public compensation and credits. This process was more or less completed by 1923-4.

In 1924-5 a movement started for the modernization of towns by means of new investments, especially in the Central Provinces. Its realization was greatly helped by an American loan of 10 million dollars granted to the "Union of Polish Towns" by the American firm Ulen & Co., at 8 per cent. interest. The loan was granted in kind in 1925-6 for the installation of public utility works in Lublin, Czeszochowa, Radom, Piotrkow, Sosnowiec, Dąbrowa Górnicza, Kielce, Zgierz, Otwock, and Ostrów Wielkopolski.

The Polish Communal Bank, created in 1920 in Warsaw by the Union of Polish Towns and the Communal Credit Bank of Poznań, also provided much financial assistance towards municipal investment. The municipal savings banks system which developed rapidly after 1927 also supplied long-term credits for cities and towns. Moreover, the Bank of National Economy had a special department for investments in municipal public utilities.

In 1928 the city of Warsaw concluded an American 7 per cent. loan of 10 million dollars, and the Province of Silesia another 10 million dollar loan on identical terms. The city of Poznań in 1928 contracted a loan of £500,000 through the British Overseas Bank of London. The city

¹ A more permanent form was given it by the law of April 11, 1924, with the amendment of March 27, 1926, etc.

Gdynia borrowed 4 million Swiss francs in Zurich. Kalisz, Włocławek, and Rypin accepted goods credits from Sweden, and many other towns also contracted loans and credits for investments in public utilities.

All the largest cities, such as Warsaw, Łódź, Poznań, Wilno, Cracow, Lwów, Katowice, Bielsko-Biała and many smaller towns enlarged and modernized their communal plants and utilities, building market-halls, abattoirs, public baths, buses, tramways and suburban railways, electric power stations, water and gas works, sewerage systems or hospitals, schoolhouses, and workers' dwellings.

This movement reached its peak in the period 1928-31 and was resumed in later years 1936-9. As a result, the standard of municipal services and sanitation, left in a state of extreme backwardness by the Austrians and Russians, was substantially raised.

But in spite of this the most urgent unsatisfied investment needs, even of the largest towns, for public utilities were still very great. They have been estimated for thirty-four of the largest cities by the Union of Towns as equivalent to £35 million. From this £13·8 million was needed for water works and sewerage construction, £7 million for the construction of electric power plants, £0·6 million for building gas-works, £9·2 million for the construction of slaughter-houses, roads, dwelling-houses, hospitals, schoolhouses, etc.

Apart from this movement some entirely new cities have come into existence, such as Gdynia, a modern seaport of 125,000 inhabitants, Mościce, the seat of a new large-scale State nitrate factory, and Stalowa Wola, the seat of a new steelworks in Central Poland; all these towns were planned in advance on new lines.

There may be mentioned here also some newly-built fashionable resorts such as the summer resort of Jurata on the Hel peninsula, with a group of modern hotels and cottages; that of Wisła in Polish Silesia; Morszyn, the Polish Karlsbad in the Eastern Carpathians; the greatly enlarged and modernized Krynica and Żegiestów in the Western Carpathians; and Zakopane, where a basket ropeway was built in 1936 leading to one of the highest plateaus in the Tatras Mountains, the first of its kind in Eastern Europe.

The private building of dwelling-houses began on a large scale in 1926-7 and progressed rapidly in 1928-30. It was stimulated by the partial release from control of house rents, by exemptions and public credits. After the Great Depression it declined rapidly, but it regained its momentum in 1936-9.

Many towns and cities completely changed their former appearance. Great areas have been opened up, as, for instance, Mokotów and Żoliborz in Warsaw, or Osiedle in Cracow. Many old cities, Lublin, Wilno, Lwów, even Cracow, the cradle and the spiritual heart of the Polish nation, well-known all over the world for its beauty and monuments of ancient glory, were transformed in appearance during the Twenty Years.

19. THE CO-OPERATIVE MOVEMENT

THE co-operative movement, as a movement of small people handicapped by capitalist concentration, had special opportunities for development in Poland. In fact, it grew very rapidly, though during the first years in quantity rather than in quality. In many respects it had the weaknesses of a rapidly developed body—the co-operative societies often lacked capital and in some respects skill and efficiency. Some were co-operative only in form, and not in spirit. But as time passed, and especially after the Great Depression, the movement consolidated its gains, acquired skill and efficiency, and eliminated some elements of abuse which had entered its ranks. The control of audit-unions gradually became tighter and more effective. Quality was substituted for quantity.

The co-operative movement was favoured in many ways by the administration through tax exemption, credits, and subsidies, by the grant of trade licences in concessionary industries or banking, and also by export bounties, especially in regard to agricultural products (standardization). The co-operatives were widely used by the State as an instrument of economic policy, and after 1934 there was a strong tendency toward increased State control over the whole movement. Many large co-operatives were financially controlled by the State.

State assistance did not contribute to the strengthening of the co-operative movement. On the contrary, it weakened it by excessive protection, which was abused by some elements.

The co-operative movement flourished during the inflation, especially in the years 1922–4. Later, however, it suffered some setbacks, from which it recovered between 1927 and 1930 as a smaller but sounder and stronger body. The Great Depression administered another heavy blow. The membership of co-operative societies fell from 2,910,000 in 1930 to 2,566,000 in 1934. The co-operative movement in agriculture went through a sharp crisis, though the Government came to its aid by debt conversions and moratoria. But after 1934 it recovered, and became stronger than ever, while its legal basis underwent a change. In 1937 membership was already above the highest figure for 1930, reaching 3,016,000.

In 1938 there were in Poland 13,741 (in 1928=10,212) co-operative societies. Nearly 9 per cent. of the whole population were members; and with their families this represented something like one-third of the entire population. From these figures the scope of the movement can be realised.

The central organization of the movement made progress every year. The Polish audit-societies formed a cohesive organization joined in three Central Unions:

(1) The Union of Co-operative Societies in Poznań (*Unia Związków*

Spółdzielczych w Poznaniu), financially the strongest organization, appealing specially to the middle classes and of somewhat nationalistic tendencies. It included some 1,350 societies divided into four audit-unions.

(2) The Unity of Associations of Agricultural Co-operatives in Warsaw (*Zjednoczenie Związków Spółdzielnirolniczych Rzeczypospolitej Polskiej*), the largest network of Polish societies, concerned especially with the small farmers and of a liberal social outlook. Altogether it embraced some 3,800 societies, divided into five audit-unions.

(3) "United" (*Spółem*), a central union of consumers' co-operatives with a radical social tendency. It embraced some 1,600 societies, divided into four audit-unions.

The co-operative movement made great strides among the minorities. In 1937 the Ukrainian and Ruthenian movement numbered 3,510 societies with 661,000 members, well organized in a strong and disciplined body. The movement was almost entirely agricultural—consumers' credit and dairy co-operation.

The German co-operatives were represented by 759 societies with 57,000 members. The main emphasis was on credit societies.

The Jewish co-operatives numbered 773 societies with 141,000 members. Nearly all of these were credit co-operatives.

As regards field of activity, the bulk of membership belonged to the credit co-operation (general and agricultural credit societies). Of the total of 3,016,000 members, 1,515,000 belonged to 5,597 credit societies. Next in importance were the dairy co-operatives, which included 626,000 members belonging to 1,475 societies. Next came the consumers' societies, with 366,000 members, divided into 2,137 small societies. The agricultural consumers' co-operatives were also fairly strong, having 353,000 members in 3,207 societies. The agricultural trading co-operatives were unfortunately not very well developed; they had only 76,000 members in 453 societies. And the housing co-operative was only in its infancy, with only 22,000 members.

Credit co-operatives developed fairly well, but suffered a severe shock during the Great Depression. Their share of deposits in all financial institutions amounted in 1937 to about 7.5 per cent., and in credits to about 17 per cent. The total short-term credits granted by credit societies exceeded 500 million zloty.

The most highly developed type of agricultural co-operation was in the field of dairy production. The membership of co-operative dairies rose from 211,000 at the beginning of 1928 to 626,000 in 1937, while the number of societies was more or less stagnant. The existing societies became more powerful and extended their activity. The milk supplied amounted to 451 million litres in 1928 and 1,045 million litres in 1936.

The dairies concentrated mainly on butter production, while in later years cheese production was increasing considerably. The

proportion of butter produced in co-operatives to total Polish butter exports rose constantly from 29.2 per cent. in 1928 to 98.8 per cent. in 1937. This was partly due to State control (standardization) of the quality of exported butter. The egg-collecting co-operatives also played an important part.

The consumers' societies reached their peak in the inflation years of 1922-4. They grew as rapidly as mushrooms, but not on sound lines. After 1924 they suffered a setback from which they never completely recovered. The decrease continued throughout the Great Depression. In the period 1928-37 the number of members of consumers' societies declined from 519,000 to 366,000 in 1936. Their turnover fell (in the period 1928-35) from 223 million zloty to 142 million, and to 118 million zloty in 1936.

The movement of so-called productive associations was insignificant. They embraced 87 small bakeries, 64 slaughterhouses, and 58 other industrial establishments, whose turnover, however, did not exceed 8 million zloty. They belonged to the Union of Consumers' Association (*Spółtem*).

The agricultural trading co-operatives dealt mainly with grain and fertilizers, but seed and food and agricultural implements also played an important part in their turnover. Altogether this turnover amounted to 134 million zloty in 1936 (366 million zloty in 1928).

Co-operative housing was developed largely by public funds. The Bank of National Economy granted in 1924-36 from public funds building credits to the amount of 244 million zloty at a low rate of interest (3 per cent.).

The co-operatives succeeded in providing dwellings at a lower cost than did private builders, but they not only enjoyed cheap credits but also in many cases obtained cheap leases on State or municipal building sites, and sometimes even outright grants and subsidies.

After 1934 control over the activities of these co-operatives strengthened. The share of public credit was cut to 50 per cent. of building costs, practically even to 25 per cent., and credits were granted exclusively to co-operatives building small flats for workers. In 1934 the Government formed the T.O.R. (*Towarzystwo Osiedli Robotniczych*—The Association for Workers' Dwellings), who started to build one-room flatlets with kitchen and bath. The T.O.R. received building credits at 1 per cent. per annum.

Altogether the co-operative societies in Poland formed a promising and highly progressive movement, improving considerably in standards and in quality in the latter years. They contributed greatly to education in citizenship and to the understanding of economic problems among the ordinary people, and helped to foster a spirit of collaboration and mutual aid.

LOOKING AHEAD: A PERSONAL NOTE

TO RECORD past failures and mistakes is an easy task, and the history of every nation from 1918 to 1939 affords special opportunities for taking advantage of such a course. After all, which of the small or great nations in Europe and overseas has not committed mistakes and even blunders? Is not the history of those twenty years, in every nation, a record of failures and of illusions followed by painful disillusionment?

After 1918, and especially after the Great Depression, we entered on a new phase of economic and social development, but we did not grasp the full implications of the new age. We continued to live with the same outworn patterns of economic and social policy as before the First World War, while the texture of social life was changing before our very eyes. The process of adjustment was much too slow. There was a lack of courage and imagination, and above all, of efficient and bold leadership.

We should bear in mind that the Polish people, in spite of the hard lessons they had to learn, in spite of the fact that they were left to themselves in the post-war turmoil of Central Europe, achieved much to their credit.

Among those achievements may be recalled briefly here:

A speedy post-war reconstruction without any reparations or foreign help, but on the contrary under a burden of war and relief debts.

The economic unification of the three separated sectors and their welding together by new lines of communications.

The construction of the port of Gdynia and the resulting industrialization of the maritime province of Pomorze.

The industrialization of Central Poland.

The carrying out of a great Land Reform.

The establishment of a large body of Social Services, which resulted in substantial health improvement, as is shown by the decrease in the death-rate.

Finally, the large municipal investment for the modernization of cities and towns.

Let us now look ahead by drawing a few conclusions from our study. We may arrange them under the following heads:

I. In post-war Europe in which misery and destitution are unlikely to be abolished overnight, the foremost need will be for national unity, based on the genuine and wholehearted co-operation of all. The Polish people will, I hope, be able to preserve in the post-war period the unity they have shown during their present struggle of resistance to the German oppression. The problem of combining freedom and democracy with prosperity and progress should be solved on a new

basis, which in the writer's opinion might differ from the political pattern of 1919-25, modelled more or less on the French constitution, and also from the Pilsudski régime and its aftermath.

The Polish people need democratic and bold leadership which will carry them through the difficult period of reconstruction to speedy progress and development. The establishment of freedom from want and fear in this part of the world will require no small exertion.

II. It may be hoped that this time the free and secure access of Poland to the sea will really be free and secure, to serve as a life-line not only to Poland but to all the small nations of East-Central Europe. This access is also necessary as a basis for that close and permanent collaboration between Poland and the English-speaking world which is ardently desired by the whole Polish nation as a corner-stone of her foreign relations.

III. The opening of the barren trade frontier with Russia is also one of the conditions of economic progress of Poland. Poland must trade on friendly terms with Russia, if given an equal chance, and Poland's location of industries and resources would provide ample opportunities for fruitful division of labour to the advantage of both sides. The dead frontier in the East was a great handicap on the economic development of Poland during the twenty years and all efforts must be made to avoid the recurrence of this repressive factor.

IV. It may be expected that this time Poland will not be left to herself to deal, unaided by any reparations or assistance, with the tremendous task of reconstruction.

The Reconstruction Programme in Europe after the First World War failed because:

- Supplies to the devastated countries were on too small a scale;
- were restricted to food and articles of prime necessity only;
- were continued for a very short time;
- no organization existed to pool resources for the task of reconstruction, so that every nation had to fall back upon its own resources;
- there was lack of uniform action and central control. The work was divided among many organizations.

Such failures must be avoided when the present war comes to an end.

The first principle to be applied is that of solidarity of action when dealing with collective afflictions and distress resulting from Hitler's New Order. No country should be left to her own resources only.

The idea of solidarity implies the application of the principle of pooling the resources not only for relief but also for reconstruction in a wider sense.

After the last war the basic requirements of the European countries were covered at a very unequal rate. In 1919, for instance, in France four-fifths of the requirements of coal were covered, in Italy two-

thirds, and in Poland only one-third. Such striking inequality must be avoided after this war.

The task of reconstruction should be carried out in three stages:

- (1) The period of relief;
- (2) the period of reconstruction;
- (3) the period of normalization.

After the task of reconstruction is completed a period of convalescence should be allowed for, during which the progress of recovery should be tested by the reconstruction authorities. The period of normalization should really be a testing period. The national economies will reach their equilibrium in new shapes and conditions, and it must be seen whether the equilibria are really durable. It is to be hoped that out of UNNRA will develop a long-term scheme of international co-operation in an expanding economy.

V. The reconstruction of Poland should be a part of the economic reconstruction of the whole area of East-Central Europe, which should be dealt with as a single whole. From this war there must emerge not only a free, but also an integrated East-Central Europe, an area of "co-operative solidarity" between all the small and medium-sized nations which are found there, with Great Powers as active sponsors to the scheme but not as participants.

After the last war the worst conditions prevailed in East-Central Europe. Terrible hardships were experienced, especially in Belgrade and Warsaw. At the end of 1919 the burning of furniture for lighting or heating was in these cities no unusual experience. Hundreds of thousands of children died from starvation. The shortage of coal was acute. Industrial plants were laid waste and transport paralysed. Lack of raw materials, lack of foreign credits, coupled with currency depreciation, created havoc.

The same thing might happen again after the present war, unless the right steps are taken in time. The economic backwardness of the area, the lack of communications and transport facilities, the lack of reserves, the lack of skilled workers and repair shops, and on top of that the utter exhaustion caused by the war, will all impose greater hardships on the population here than elsewhere.

Special attention, therefore, should at once be paid to the reconstruction of this area with particular regard to the improvement of transport, the transfer of skilled workers, the establishment of repair works and services. The problem of the supply of skilled workers from Allied countries is in my view of paramount importance in East-Central Europe.

The problem of the peasantry in this area has a special character, and a comprehensive and bold scheme must be worked out for its solution. The scheme should embrace:

Land reform, by splitting up the larger estates;

technical improvement, by the supply of cheap fertilizers, tractors and other agricultural implements ;
the setting up of dairy industries and industries processing agricultural products ;
soil improvement ;
crop improvement and improvement of livestock ;
development of the co-operative movement ;
rural planning for better housing, water and electrical supply, and community centres.

The countries of East-Central Europe have many features in common, and many common difficulties ; they have to solve common problems. Their reconstruction should be dealt with as a whole and their regional integration should be encouraged by initiating new investments for collective use, especially common waterways, railways, electricity, etc.

VI. The reconstruction of Poland should be the starting-point of a bold scheme of industrialization and economic development, worked out for a longer period (e.g. 10-15 years, on a basis of three-year plans). The scheme should be based on close international co-operation.

Some developments started before the war, such as the industrialization of Central Poland and that of Pomerania, should be resumed.

The plan of the Towns Association for municipal investment in public utilities in thirty-four of the largest cities of Poland, covering water and sewerage systems, gasworks, electricity power stations, abattoirs, tramways and bus services, should be carried out over a period not exceeding 10-15 years.

Great international investments envisaged before the war, such as the regulation of the water system of the Vistula and its joining up with the Danubian water system, the electrification of the country, the development of railway systems and of commercial aviation should be among the main objectives.

VII. Unless a thorough-going scheme for new educational and training facilities is carried out, the task of raising the economic standards of Poland, so essential for the political and social security of this country as well as for East-Central Europe as a whole, could, however, not be completed. The scheme is all the more necessary since for more than four years the Nazis have brought to a standstill the whole apparatus of education and learning in Poland, closing down all types of secondary schools and universities, all libraries, laboratories and research centres, all scientific or popular publications and reviews. To cope with this immense task of re-education and retraining of the population, many large training centres on the lines of war training in Great Britain ought to be established under comprehensive schemes based on international co-operation.

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The great industrial democracies would seem already to have learnt the lesson that the community of nations as a whole cannot progress satisfactorily as long as large masses in the poverty-stricken areas are left to their own resources. We hope that the age of imperialism has passed, and that we are entering on a new age of world-leadership by the great industrial democracies. But this leadership must be based primarily on responsibilities and encouragement to progress and prosperity.

APPEND I

POLISH ECONOMIC THOUGHT ¹

THE national characteristics of economics as a social science may be seen: (1) in the selection of different problems as most relevant to the real life of a nation; (2) in the selection of different sets of assumptions related to different stages of economic development, social and political structure, or national psychology; (3) in the preference for certain methods of investigation—analytical or historical, dynamic or static.

The characteristics of economics in Poland, as reflected in the trends of Polish thought during the twenty years of Independence (1919-39), may be related to the following factors of the national economy:

The unification of the three sectors of Poland, divided for nearly a century and a half of partition, has produced conditions and interests which come very near to the problems of sixteenth- to eighteenth-century mercantilism.

The inter-relations between political and economic life, the economic implications of the newly-created political unity, "the Idea of National Economy" (one of Rybarski's studies was published under this title), were widely investigated and studied.

Polish economics were to a very great extent what is commonly known as "political economy", that is, a doctrine conscious of its political and moral implications as a social science.

The vast problems of the rôle and significance of political and other assumptions in economic theory and policy attracted great interest among Polish scholars. Have economic truths an absolute or only a relative validity, that is, one restricted to sets of assumptions consciously or unconsciously accepted? Where is the source of the peculiar characteristics of different doctrines and systems in economics? And which of these would best fit in with those assumptions which are contained in the reality of Poland's life? These were the questions broadly dealt with.

The newly-created political and economic unity was largely responsible for the importance of methodological investigations in Polish economics.

¹ I have tried here to give a general picture of economic thought in Poland during the last twenty years; but I must confess that the material available in Great Britain for this study is very scarce and insufficient for an adequate treatment of the subject. Some volumes of the *Review of Economic Studies*, published in English by the Polish Academy of Science and Letters in Cracow with the support of the Rockefeller Foundation (edited by Professor A. Heydel), which I have fortunately found in the Marshall Library at Cambridge, have proved of great assistance.

To confine our review to only a few contributions to this subject, I would mention:

L. W. BIEGELEISEN discusses in two huge volumes the application of socio-economic models (models of socio-economic structures) for the investigation of economic problems.

T. BRZESKI presents his *Theory of Economic Activities* (1938) dealing with such problems of methodology as *Ideal-Types* of Economic Man and Economic State.

GLABINSKI, in his *National Economics*, applies the socio-psychological method, seeing in each phenomenon the reflection of the social whole.

S. GRABSKI, in his *Social Economics*, presents what he calls a system of political economy, treating especially the problem of structural changes and the transition between one stage of economic development and another.

A. HEYDEL discusses *Fundamental Methodological Problems of Economics* (Cracow 1925) and KARPINSKI, *Problems of Social-Economic Methodology*.

A. KOSTANECKI, formerly professor at Fribourg, author of *Labour and Poverty* (translated into German, 1909), in his *Problem of Economics* (1930), investigates the inter-relations between economics and social institutions and cultural trends.

A. KRZYŻANOWSKI, in *The Assumptions in Economics* (1919), stresses the close links between politics and economics. Many of his contributions since 1930 have been published by the Polish Academy of Science and Letters under the title, *Politics and Economics*.

F. MLYNARSKI, in his *Economic Proportionalism*, attempts to reduce all qualitative distinctions of economic phenomena to a quantitative relationship, as expressed in the notion of "proportionality". What is right up to a certain point, is wrong when taken beyond that point.

E. TAYLOR investigates the rôle and limits of *Statics and Dynamics in Economic Theory* (1919), and presents his *Introduction to Economics* (1937).

F. ZWEIG, in *Four Systems of Economics: Universalism, Nationalism, Liberalism, Socialism* (translated into German, 1932), traces the link between the economic theory and phases of economic and industrial development.

The prevailing, although not universal, trend of all these studies was an approach to economic problems rather from a relationist, institutional, and realistic aspect. Economic reality is in a state of constant change, and economic science must also reflect this change. An ounce of good observation was regarded as worth much more than a pound of pure reasoning. Every stage of economic development has its own rules, valid for that stage alone.

An early stage of industrialization evoked problems of economic progress. What factors are responsible for the speedy process of

industrialization and economic progress in general? This was a most widely discussed question, the object of investigation, and even of a public contest officially organized by the Bank of National Economy (*Bank Gospodarstwa Krajowego*). (See papers published by the Bank of National Economy under the title, *The Economic Programme of Poland*, 1926.)

In connection with these problems are the investigations in dynamics in economics: What are the factors responsible for economic progress or retrogression? This was the subject of a study devoted to Poland's economy in KRZYŻANOWSKI's book on the *Pauperization of Contemporary Poland* (1925), and in many others of his studies.

Problems of the efficiency of production related to different models of economy, to different technical, psychological, and social conditions, and different organizations, are discussed in a standard book by the late W. ZAWADZKI (Vice-Chairman of the Econometric Society in the U.S.A.): *The Theory of Production*, 1923 (translated into French).

RYBARSKI's study, *Value, Capital, and Income* (1922), is largely devoted to the problem of progressive and retrogressive economy and to qualitative distinctions in the field of investment and production.

The problems of technical progress, especially of technical unemployment, are the subject of F. ZWEIG's study, *Economics and Technology* (1936, translated into English).

Special mention must be made of the studies of structural changes in industry and banking in the post-war reconstruction of Poland, presented by H. TENENBAUM, *Structure in Polish Economy* (2 vols.; 1932, 1935).

The dynamic approach to economic problems might be regarded as a remarkable feature of Polish post-war theory in economics.

The high birth-rate combined with the density of the agricultural population and "disguised unemployment" caused a great interest in population problems. The problem of *optimum* population was discussed from the point of view of the relation between the rate of increase (1) in population; (2) in capital; and (3) in the standard of technique and organization.

The common view inclined to regard over-population as under-capitalization (or "under-technicalization") and the whole emphasis was laid on savings, which provide new investment funds, on capital influx from abroad, or on technical progress.

In this respect I would refer to two opposite views.

One was represented by A. KRZYŻANOWSKI, whose studies in Malthus were especially distinguished. Pointing out the limitations of Malthus' doctrine based on the assumption of a static technique, he nevertheless accepted some of its implications.

The opposite view was represented by the advocates of planned economy (S. GRABSKI), who desired to overcome the over-population

problem by a rational organization of the economic resources of the whole country. They have pointed out the necessity of a conscious readjustment of a backward country to the disruption of world economy, to closed boundaries for our labour surplus (immigration quotas).

The problem of over-population in agriculture has been investigated by many writers, such as S. Schmidt, J. Poniatowski (*Over-population in the Villages and Agriculture*, 1936), S. Bronikowski, F. Bujak, M. Ludkiewicz, W. Styś, and Władysław Grabski.

In this connection the problem of land reform and agricultural structure was studied. The investigations of the Institute for Agricultural Research in Puławy were especially remarkable. These investigations seemed to prove the superiority of small peasant farms over huge estates with regard to gross income and the ability to absorb the surplus population.

The long and disastrous process of inflation which proceeded in three stages (war inflation, 1914-18; first post-war inflation, 1919-23; second post-war inflation, 1925-6) produced also an "inflationary" number of investigations and studies devoted to monetary problems, some of them remarkable.

The writers have most adhered to the quantitative theory of money, since this theory—as pointed out by I. BEZNER in his study, *Correlation between Money Circulation and Price Level in Poland* (1927-32)—seemed to a large extent to have been proved by events in Poland.

The foremost representative of the quantitative theory was A. KRZYŻANOWSKI, who had already in 1911 published a thorough study on *Money*, and afterwards developed his views in *Principles of Money and Credit* (1923) and in some other papers.

T. BRZESKI in his studies (*A Theory of the Monetary System*, 1928; *Monetary Policy*, 1932) connects the quantitative theory with the theory of marginal utility.

E. TAYLOR (*The Inflation in Poland*, 1926; *The Second Inflation in Poland*, 1928; *Some Remarks on the Polish Monetary and Credit Policy*, 1932), based on a thorough analysis of Polish monetary experience, stresses the importance of psychological factors, customs, and habits in the valuation of money.

The late J. S. Lewinski emphasizes the non-monetary factors of pricing, especially the technological factors in the problem of the purchasing power of money, and criticizes the usefulness of Irving Fisher's exchange equation.

During recent years the quantitative theory under the influence of the Great Depression has been abandoned, or rather revised. Some writers have pointed out the primary importance of wage control and the rôle of the State's authority in the process of inflation. If the level of wages were stabilized, the rise in the volume of money would not have

an inflationary effect, while a smaller increase of money circulation accompanied by a steady rise of wages might develop into wild inflation.

As early as the middle of 1932 A. KRZYŻANOWSKI and F. ZWEIG in a joint paper pointed out the wide implications of a world-wide exchange and price revolution, and of the structural changes in world trade, drawing as a conclusion the necessity for Poland to abandon the gold standard and to join the sterling block. The paper was published in Krzyżanowski's collection of studies under the title *Dollar and Złoty*.

J. ZDZIECHOWSKI presents a study devoted to the limitations of the gold standard under the title, *Myth of the Gold Standard*.

S. GRABSKI's study, *The Way Out*, analyses the possibilities for Poland of managed currency, which he advocates.

A critical examination of different forms and types of managed currency was attempted by the late W. Zawadzki.

Finally we have to mention the many studies, some of them in English, by F. Mlynarski (former Vice-Chairman of the Bank Polski), devoted to the problem of international collaboration of central banks.

M. BREIT in his study devoted to *The Rate of Interest in Poland*, based on the Wicksellian hypothesis of the natural rate of interest, points out the primary rôle of the rate of interest in the process of inflationary credit.

J. LIBICKI investigates *The Theoretical Foundations of the Policy of Central Banks* (1931).

The Great Depression, which in Poland lasted from 1930 to 1935, and which was aggravated by the intense slump in agriculture, was responsible for the renewed interest in investigation of business cycles in industry and in agriculture, and of the changes produced by them in the national income and its distribution. The Institute for Research into Business Cycles and Prices, founded in Warsaw in 1928 under the leadership of E. Lipiński, Editor of *The Economist*, promoted and partly organized these researches.

One of the collaborators of this Institute, M. KALECKI, published in 1933 his *Essay on Business Cycles Theory* (revised afterwards for *Econometrica* (Vol. II, No. 2) and the *Revue d'Economie Politique*, 1934, and published in Oxford in a new version in his *Essays in the Theory of Economic Fluctuations*). His theory came very near to the Keynesian *General Theory of Employment*.

A critical analysis of the methods of research in business fluctuations was presented by O. LANGE, lecturer in the University of Cracow and now Professor at the University of Chicago in his book, *The Statistical Investigation of Economic Fluctuations* (Cracow, 1932).

The last chapter has been enlarged by the same author in his book, published in German: *Price Dispersion as the Mean for Statistical*

Measurement of Disturbances of Economic Equilibrium (Leipzig, 1932, edited by Prof. E. Altschul of Frankfurt). The author has elaborated a new method for the statistical measurement of deviations of the actual economic system from equilibrium. He wishes to distinguish whether a given dispersion of price changes is a symptom of translocation of equilibrium or of its disturbance.

A study also devoted to the method of cyclical investigation was presented by J. KORENIEC in a paper entitled *Critical Analysis of Method of Contemporary Research in Business Cycles* (published by the Polish Academy of Science and Letters in Cracow, 1931). A study on similar lines was published by W. Fabierkiewicz.

E. LIPIŃSKI published a study devoted to the analysis of Business Cycles in Poland between 1924 and 1927.

H. TENENBAUM investigates the possibilities of the control of cyclical fluctuations by control of real investment (*Investment Credit*, Warsaw, 1939).

Studies of income, its distribution, composition, and changes under the influence of business cycles were contributed by many writers.

KALECKI and LANDAU have published together two studies, one devoted to the assessment of the national income in Poland in 1929, the other to the calculation of its changes during the years 1929-33. In the latter study they attempt to construct indices for changes in the national income as a basis for its "period analysis".

I would also mention here an interesting study by J. WISNIEWSKI on distribution of Personal Income in Poland in 1929.

Special studies were devoted to the agricultural crisis. M. FERBER published *Causes of the Agricultural Depression*. S. SCHMIDT and S. MANDECKI presented the results of their investigations in the hog-cycle (*Production of Hogs in the Light of Business Cycles Investigations*. Economic Society in Cracow). O. TUŚKIEWICZ, *The Grain Crisis in Poland in the Years 1929-33* (Poznań, 1934).

Structural changes in world economy, especially in the distribution of raw materials and the formation of international cartels, were treated in studies by H. GLIWIC, some of them translated into French. The structural changes in international trade were analysed by H. STRASBURGER, now Minister of Finance in the Polish Government in London.

The problem of saving has played a very important rôle in Polish economics. With a high birth-rate, small industry, and public finance organically inclined towards a deficit (as the outcome of many factors inherent in Polish politics and economy), and a small national income per head of population (and therefore little propensity to save), we have attached an extremely great importance to the increase of the rate of saving. The orthodox monetary and credit policy of the Polish Government in the Great Depression was in many respects due to this fact.

The problem of saving was treated as a problem of incentives to save (saving for personal security and saving under conditions of economic and political security); as a problem of sources of saving (the magnitude of national income); as a problem of distribution of income (saving as a corrective of unfair distribution).

The orthodox view which stressed the advantages of saving all along the line has prevailed. However, the distinction was emphasized between saving in real terms and money saving, saving being defined as that part of income which serves to satisfy wants extending beyond a certain period of time.

The thesis that by an orthodox savings policy we cannot really achieve full employment and full utilization of our resources has been accepted by some writers (Rybarski and Kalecki).

The new approach to the problem of saving from the dynamic point of view (that is, how saving, defined as the difference between income and expenditure upon current consumption, affects the magnitude of national income as the source of saving) was partly made under Keynes' influence. (Mrs. Robinson's *Introduction to the Theory of Unemployment* was translated into Polish.)

Finally I should like to quote data relating to the study of the problem of values and prices, which have attracted great interest in Polish economics. The problems were treated mostly on the basis of marginal analysis, under the influence partly of the Austrian school, and partly of Pareto. But some studies of the problem of value were based on sociological lines (S. GRABSKI), which treated economic valuation as part of a historical process and have related it to the general scale of values and social structure. The individual scale of preferences was in their opinion also the outcome of a social whole and of a social and economic structure. The scale of preferences was treated by them as a product of economy, but not as its governing centre.

The treatment of the problem of value on Marxian lines was rather exceptional.

I would mention here some studies devoted to this subject:

T. BRZESKI, *Outline of a Psychological Economic Theory*. Poznań, 1921.

J. DREWŃOWSKI, *Imperfect Competition and the Consumer*.

K. KRZECZKOWSKI, *Value and Price*.

J. LIBICKI, *An Outline of a Theory of Costs of Production*. Cracow, 1935.

R. RYBARKI, *Value, Capital, and Income*. 1922.

Z. STRASZEWICZ, *An Outline of Political Economy*. 1929.

E. TAYLOR, *Introduction to Economics*. 1936.

A. WAKAR, *The Theory of Wages*.

W. ZAWADZKI, *The Concept of Exchange Value*. 1925.

F. ZWEIG, *The Problem of Value* (1921); *The Shifting of Taxes*. (1923.)

The body of Polish economics before the present war was on its way to development both from the qualitative and quantitative points of view. With the growth of Polish economics the specialization of economic research and the creation of centres confined to a definite section of the problems and methods of economic investigation proceeded rapidly. We had a fair number of economic societies, especially in Cracow, Lwów, Poznań, and Warsaw, for the co-ordination and promotion of economic research, and a number of scientific reviews (quarterlies such as *The Economist* in Warsaw or *Movement in Law and Economics* in Poznań; *The Economic Review* in Lwów, or the *Trade Cycle*, the organ of the Institute for Research into Business Cycles and Prices; the *Review of Economic Studies*, published in English by the Polish Academy of Science and Letters in Cracow; and finally the numerous publications of the Economic Society, Cracow, under the leadership of its untiring chairman Prof. A. Krzyżanowski).¹

All this promising movement was unfortunately completely stopped by the war and its consequences. The Nazi oppression of Poland has rendered impossible any continuation of scientific research, in this as well as in other domains.

¹ Apart from these, there appeared many weeklies and fortnightly devoted to the practical problems of economic life.

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